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Assetz Capital Property Report.

Q4, 2024

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Report Introduction.

In the face of both political and economic changes during Q4 2024, the UK property market once again showed its resilience with a final upwards kick in residential values seen at the tail end of the year. Further signs of recovery are evident as positive growth has now spread across all regions in the UK. In this report we also look at rental growth and we drill into some of the dynamics behind the rental market to understand how the market will develop in 2025 and beyond.

Significantly, the vacuum for planning reform in the development sector has in part been addressed with the introduction in December of an updated National Planning Policy Framework (NPPF) by the current government. This report looks at some of the more important changes to planning policy and how these could impact on the supply of land for housing in an attempt to address the housing crisis in the UK. The changes are significant and we look ahead to understand what these mean for SME developers.

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

Summary

UK economic growth was positive over the year but flat in Q4, with an estimated 0.8% growth for the year to November.

GDP is forecast to grow by 1.7% in 2025. Inflation dropped unexpectedly to 2.5% in December, signalling potential stability, though still above the 2% target. Household finances benefit from real growth above inflation, supporting the housing market. However, risks remain, particularly regarding US trade tariff policies.

GDP Growth

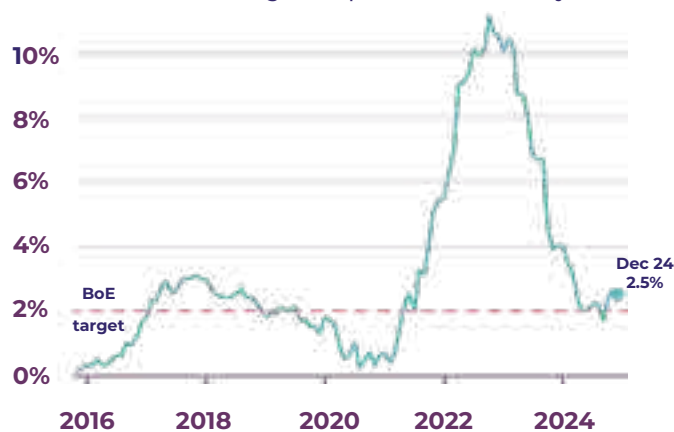
Following marginal GDP growth in Q3, estimates for Q4 2024 indicate annual GDP growth at 0.8% for 2024. Forecasts indicate that GDP could rise to 1.7% (KPMG) in 2025 underpinned by positive real wage growth and higher than anticipated government spending following the autumn budget.

Inflation

Inflation increased to 2.6% in November 2024 but unexpectedly eased back to 2.5% in December. The effect of UK business passing on the costs of the increase in NI contributions leading to inflation could be a headwind in the medium term. Inflation likely to hold marginally above target for the short term with some forecasts predicting reaching target by the end of 2025. Note that inflation is still below the UK's long-term average of 2.82%.

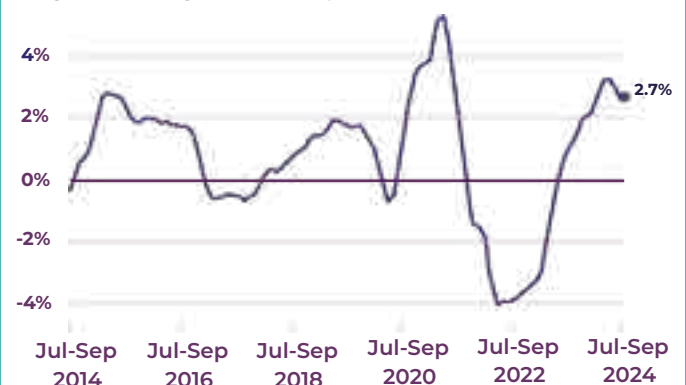
UK inflation at 2.5% in December 2024.

Source ONS: Bank of England updated 15th January 2025



Annual change in regular wage growth.

Wages are rising faster than prices



Figures exclude bonuses and pay arrears, and account for seasonal variation. Real pay is adjusted using consumer price inflation (CPI).

Interest Rates

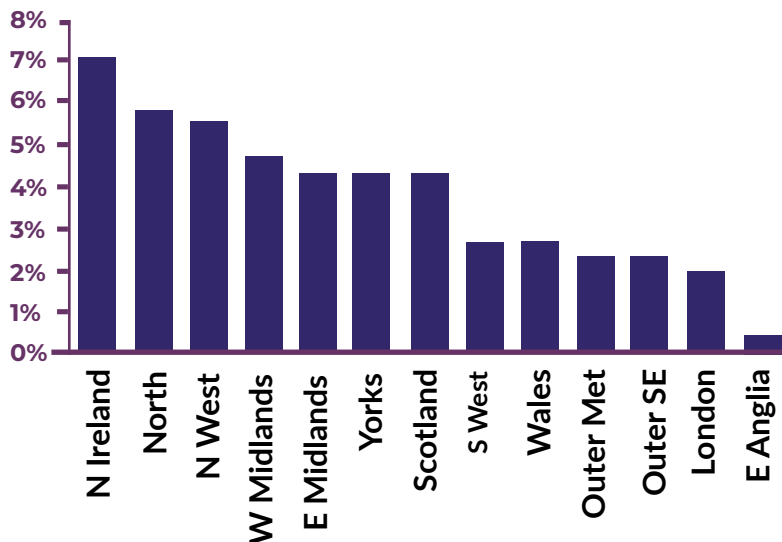
On the 6th November the Monetary Policy Committee (MPC) voted to reduce base rates decisively by 8-1 on BOE BR reduction of 0.25%. On 18th December BOE BR rate held at 4.75% in anticipation of further cuts to 5 year fixed mortgage rates. These are continuing to drop and are likely to fall further as we move through 2025.

Summary

For first time in 2024 all regions showed positive growth. Northern Ireland was the best performing region for the second year running and the North of England led the growth over southern England. East Anglia finally ended the year in positive territory and London was stable for the year.

- Annual Growth: **Nationwide reported a 4.7% annualised house price growth in Q4 2024.**
- Resilient market: affordability challenges do not appear to have dulled demand overall.
- The flat growth in October (0.1%) was reversed in November (1.2%) and December (0.7%) leading to a strong finish to the year.
- Pent up demand: part of the increase in activity at the tail end of the year due to those purchasers who held off buying until gaining greater certainty following the autumn budget on the 30th October 2024.
- Transactions up: The number of UK residential transactions in November 2024 is 104,440 (ONS), 19% higher than November 2023.
- Transactions activity in 2025: We may see a hiatus of activity on completing transactions due to the changes in Stamp duty up until the end of March 2025. A corresponding lower level of transactions might be observed in the weeks following the changes.

Annual % change in house prices (Q4 2024)



Region	Average price (Q4 2024)	Annual % chg this quarter	Annual % chg last quarter
N Ireland	£197,696	7.1%	8.6%
North	£164,696	5.9%	3.2%
North West	£218,012	5.5%	5.0%
West Midlands	£245,173	4.7%	1.0%
East Midlands	£235,877	4.4%	1.8%
Yorks & The H	£207,373	4.4%	4.3%
Scotland	£187,016	4.4%	4.3%
South West	£306,730	2.7%	0.6%
Wales	£207,187	2.7%	2.5%
Outer Met	£422,372	2.4%	1.9%
Outer S East	£336,224	2.3%	0.6%
London	£525,535	2.0%	2.0%
East Anglia	£272,152	0.5%	-0.8%
UK	£268,518	3.6%	2.5%

Summary

Rents are still increasing but at a slower rate as the imbalance between rental supply and demand eases. The lack of supply means that growing affordability issues will be the only brake on rental growth which will impact particularly severely on low income renters.

- **Rent Increases:** The average UK private rent increased by 4.1% in the last quarter.
- **Regional Performance:** North of England, Scotland, Wales and Northern Ireland have outperformed the South East of England and London again.
- **Highest growth in the rented sector** is occurring in markets that are at the more affordable end of the market. Zoopla cites evidence that rents are rising fastest in this submarket.
- **Renters' Rights Bill:** Exit of landlords subject to outcomes in the current government's Renters' Rights Bill. The bill aims to give greater security to tenants and will abolish Section 21 no fault evictions, limit deposits and end bidding wars. The third reading of the bill occurred on the 14th January and is now moving to the House of Lords. Expectations are that the bill will become law in Spring/summer 2025.

The average UK private rent increased by 4.1% in the last quarter.

Source: Zoopla Rental Market Report



City	Annual % change in rents	Average rent (pcm)*
1 Belfast	11.5%	£819
2 Newcastle	8.7%	£871
3 Liverpool	6.5%	£843
4 Cardiff	5.3%	£1126
5 Southampton	5.3%	£1157
6 Edinburgh	4.8%	£1350
7 Aberdeen	4.6%	£719
8 Birmingham	4.5%	£985
9 Manchester	4.2%	£1124
10 Bristol	4.0%	£1433
11 Cambridge	4.0%	£1592
12 Sheffield	3.1%	£837
13 Glasgow	2.9%	£989
14 Leeds	1.9%	£987
15 Nottingham	0.0%	£943
UK (ex. London)	5.1%	£1013
UK	3.9%	£1270

Planning and Housing Completions.

Summary

Planning approvals declined during the third quarter of 2024, continuing the downward trend since the start of the year. London saw an increase in applications.

Delivery of new homes continues to be significantly below both previous and current government targets. It is hoped that the changes to the NPPF24 will improve this going forward.

- News on construction starts have started 2025 on a positive note with Q4 private residential starts increasing 9% in Q4 2024 indicating renewed confidence in the market.
- Housing completions: approximately 235,000 (est. Glenigan) homes will be delivered in 2023/2024 (234,400 in 2022/23), compared to an annual average of 210,000 over the last five years.

Delivery of new homes continues to be below both current government targets of 370,000 per annum.

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. In the near-term construction costs overall remain under control.

- Construction costs BCIS Private Housing Construction Price Index 2024: 2.0% (forecast).
- Labour cost in 2024: 5.3% (BCIS)
- BCIS forecast (Q4 2024) for construction costs to increase 17% over next 5 years.



Government Housing Strategy.

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.
- Policy to ensure local communities continue to shape housebuilding in their area, but where necessary Labour state they will not be afraid to make full use of intervention powers to build the houses we needed.
- Taking steps to ensure we are building more high-quality, well-designed, and sustainable homes and creating places that increase climate resilience and promote nature recovery.

Changes to the updated NPPF.

Summary

- The National Planning Policy Framework that sets out the government's planning policies for England and how these should be applied has changed. Let's look at the changes:
- **Grey Belt Definition:** This includes previously developed land (like brownfield sites) within the Green Belt that does not strongly serve its main purposes. Preventing urban sprawl, avoiding merging of towns and preserving the character of historic towns.
- **Green Belt Boundary Reviews:** These are allowed in exceptional circumstances (e.g., if housing needs cannot be met elsewhere). This reclassification allows under used Green Belt land to be reused for housing.
- **Framework Priority:** Focus on developing land with the least impact on the Green Belt Environment.
- **3 Golden Rules for Green Belt Development:** If major development happens on Green Belt land, these rules must be followed.
 1. At least 50% of housing must be affordable (including a fair share of social housing), as long as it's viable.
 2. Local or national infrastructure must be improved where necessary.
 3. Create or improve public green spaces for accessibility.

Changes to the updated NPPF continued.

- 5-Year Housing Land Supply (5-YHLS): The requirement for LPAs to maintain a 5-year supply of housing land is reinstated (as before 2023). Key effects:
 - Greater number of appeals to release land in areas of high demand where 5-YHLS is not demonstrated.
 - Lack of 5-YHLS could also mean greater pressure to release land from the Green Belt qualifying as 'special circumstances' especially when combined with factors like self-build housing and affordable housing.
 - Previously developed land in sustainable locations e.g. disused industrial sites in the green belt.
- Presumption in favour of sustainable development refined: This is a safeguard in the NPPF where policy is not appropriate or incomplete, outdated or no longer fit for purpose. This has been adopted to ensure that the LPAs need to deliver housing that is also balanced against providing high quality housing and environments in respect of:
 - Locational policies e.g. Prioritising developments in well-connected locations. The NPPF is further refined to focus on sustainability in such as well-designed transport links and infrastructure.
 - Design policies might focus on delivering high quality, community-orientated developments that enhance local character.

Boost for SME Developers.

Summary

In what some are calling a pivotal shift in planning policy, Small and medium-sized developers may see an improved development environment.

- Policy improvements aim to ensure adequate supply of smaller sites to SME developers. 10% allocation of small sites to SME's.
- Streamlining ongoing in the planning approvals process: commitment to planning committee reform.
- Tools to streamline applications. Use of 'planning permission in principle', Local Development Orders and Brownfield registers, small sites biodiversity metric tools (SSM).
- Release of grey belt sites, greater opportunity for SMEs to benefit from release of infill sites and overall increase in planned housing land pipeline.
- Reinstatement of 5-year housing land supply incumbent on LPAs means greater scrutiny on delivery of small sites.
- Rural development opportunities: Greater flexibility for small community led and affordable housing developments and self build from which SME developers could benefit.
- LPAs encouraged to split larger sites in order to meet requirement for small site pipeline.

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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