MARKETBEAT

ECONOMY & HOUSING

JULY 2025

Better never settles

ONE YEAR ON

July 4th saw the one year anniversary of the General election in which Labour came to power. Just before, the reversal on the Welfare bill highlighted not only the tenuous the fiscal rules in which the government is operating are, but also – through the short-lived 15 basis point in gilts, and 0.8% fall in the pound – the fact that to the financial markets, alternatives may be less preferable.

Nevertheless, the implications are that the Autumn budget will need to be tightened in the region of £30 billion – likely through tax increases.

While there are other publications better suited to taking a view on the performance of the government, there continues to be a number of positive steps towards looking to drive investment, as highlighted in Visions – through housebuilding as per the recent spending review, and the more recently released 10-year infrastructure strategy and the Modern Industrial Strategy – more of which you can read here. These two frameworks are geared towards investment across not only eight identified sectors, but as importantly for the real estate sector towards identified locations.

However, in the short-term, three have been a number of worse-than-expected economic data releases. Monthly GDP for May fell by 0.1% after a 0.3% fall the previous month, while the labour market has softened further – with unemployment as high as 4.7% (albeit with caveats). The flip side to this is that this will prompt the MPC to cut interest rates in August despite inflationary data surprising on the upside.

PAUSE FOR THOUGHT?

July 9th was due to be the deadline for the 90-day pause for the majority of countries on the US' Reciprocal Tariff policy. On July 7th, it was announced that this would be pushed back further., with four deals agreed – between the UK, China, Vietnam and Indonesia. The new timeframe is August 1st, with further announcements pending of a 50% tariff on copper imports, and as high as 200% on pharmaceuticals.

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KEY TAKEAWAYS

- July 4th saw the year anniversary of the General Election. However, the occasion was married by a U-turn on the Welfare Bill, which impacts the Government's fiscal headroom.
- On 23rd June, the Government announced the 10-year infrastructure and industrial strategies – both aimed at driving productivity and economic growth.
- The labour market continues to soften significantly, with wage growth now slowing as a result.
- After the surge in sales activity due to SDLT changes, there has been a reduction in transactions.
- On 19th June, the MPC decided to hold Interest Rates at 4.25%. The next MPC meeting is on 7th August.

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ECONOMIC INDICATORS

	YOY Change	Monthly Change
102.4 MONTHLY GDP	▲	▼
52.0 UK COMPOSITE PMI	▼	▲
-18 CONSUMER CONFIDENCE	▼	▲
4.7% UNEMPLOYMENT RATE	▲	▬
4.0% CPIH	▲	▼
3.7% 5 YEAR SONIA*	▼	▲
4.6% 10 YEAR GILTS*	▲	▼

** Notably volatile at present*

Source: ONS, Moody's, Bank of England, GfK, S&P, FTSE Russel

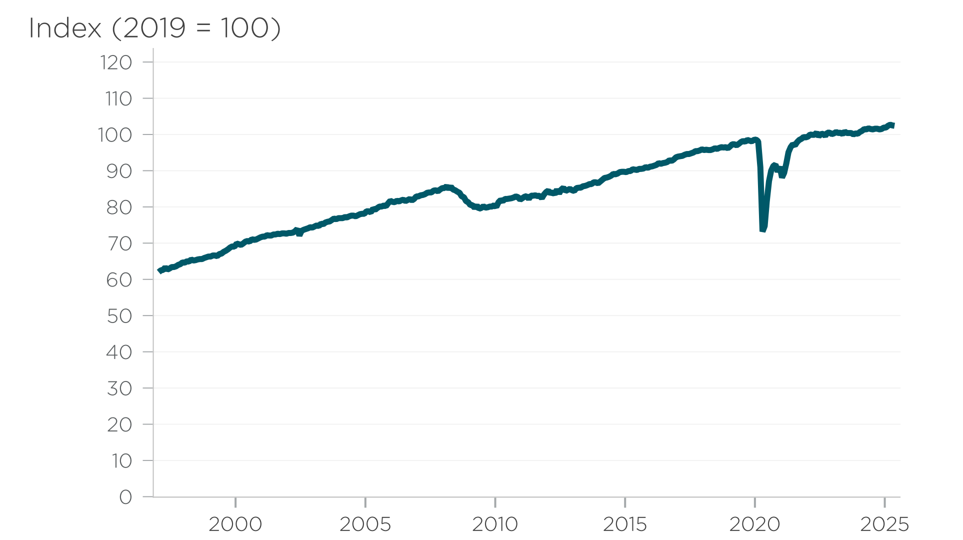
ECONOMIC OVERVIEW

Monthly GDP slipped in May fell by 0.1%, following a 0.3% fall in April and 0.4% growth in March. Nevertheless, GDP remains 0.5% up in the three months to May versus the prior three-month period, aided by carry-over from Q1's strong 0.7% quarterly gain. The services sector edged up 0.1% m/m, offset by sharp declines in production (-0.9%) and construction (-0.6%).

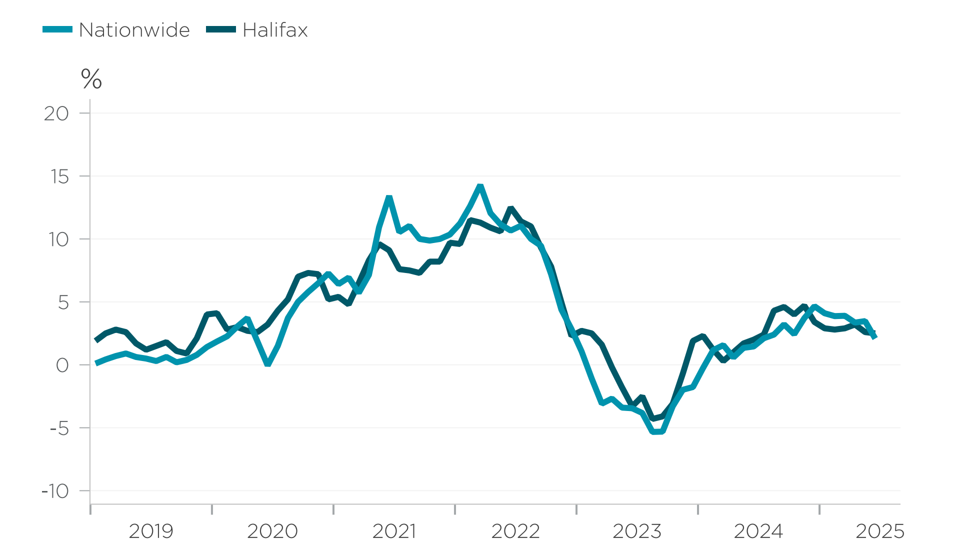
The falls in April and May suggest that Q2 will come in, in the region of approximately 0.1% growth. When put in the context of a q-o-q growth of 0.7% in Q1, with much of this brought forward during Q1, the underlying feeling is that the true vitality of the economy lays somewhere in between.

The positive notes are that the housing market is starting to show signs of recovery after the post-stamp duty pause, while PMI has increased meaningfully and consumer confidence has ticked up.

MONTHLY GDP



UK ANNUAL HOUSE PRICE INFLATION



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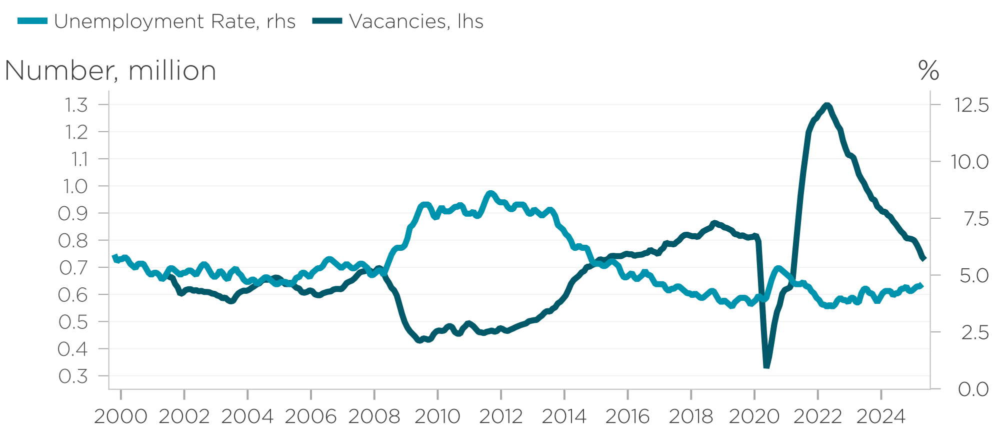
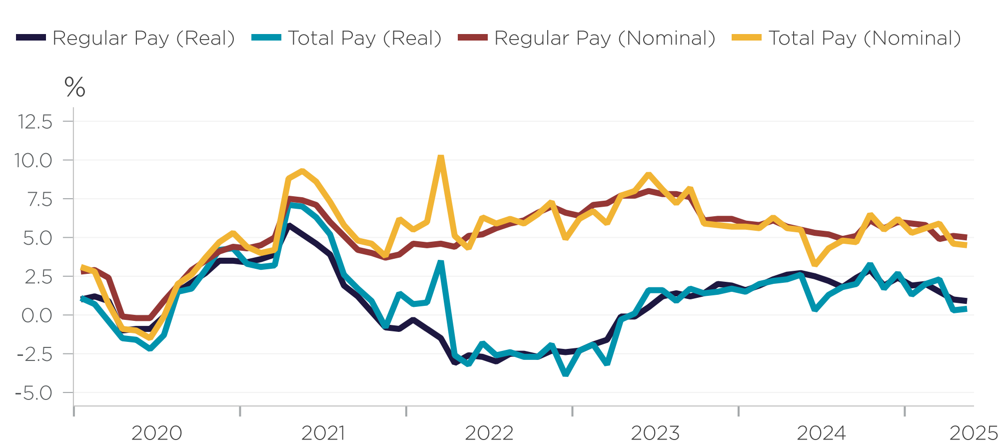
UNEMPLOYMENT & JOB VACANCIES



ILO REDUNDANCY RATE

PAY IN REAL & NOMINAL TERMS



EMPLOYMENT

It has become customary to note that labour market data provided by the ONS remain subject to considerable uncertainty due to ongoing small sample sizes. While some improvements have been made to survey methodology, triangulating across multiple datasets remains necessary.

The total number of payrolled employees fell by 25,000 between April and May, reflecting continued softness in the labour market. This marks the fourth consecutive monthly decline, and means that there are 135,000 less people in work than a year previous. Early estimates for June suggest an even greater reduction in the workforce. The UK unemployment rate has climbed to 4.7%—the highest since August 2021.

All this means that since the Chancellor announced the increase in National Insurance contributions and the minimum wage, payroll employment has fallen by 185,000 – suggesting that increased costs have driven an offsetting by reduction in headcount.

Furthermore, there were 727,000 reported vacancies in the three months to June, a decline of 56,000 from the previous quarter and 68,000 below levels recorded immediately prior to the pandemic. Vacancy levels are now on their 36th consecutive quarterly decrease, with the cooling most acute in retail, consumer services, and some manufacturing subsectors, while health and social care remain resilient.

Due to the lagging nature of the data, information on redundancies is unlikely to give a true indication of the current health of the economy. Nevertheless, the data that runs to May saw the number of redundancies increase from 3.5 to 3.9 per 1,000 employees.

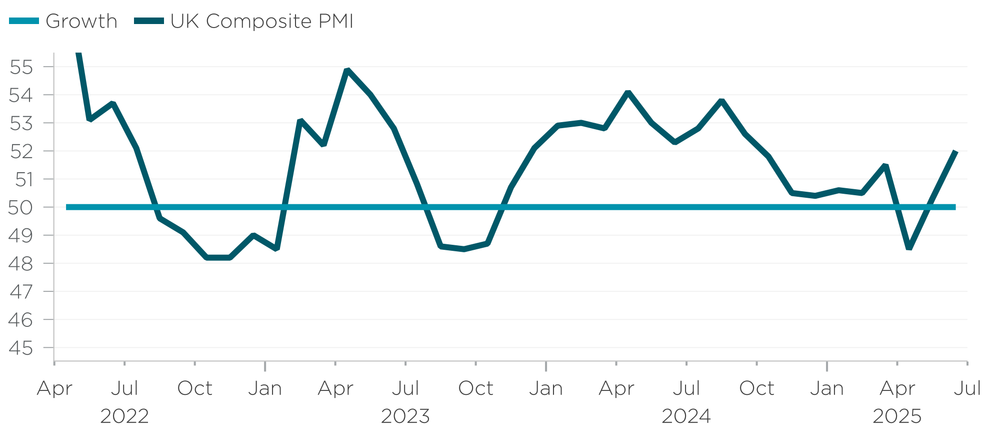
EARNINGS

For the three months to May, annual regular pay growth eased further, slowing from 5.2% to 5%, with total pay (including bonus payments) recorded the same 5% growth over that period. Annual growth in real terms using CPIH grew 1.1% for regular pay, and 1% for total pay. This shows a significant slowing of growth and may be good news for the Bank of England, with the data coming in below its own forecasts.

Public sector wage growth remained in line with the previous three-month period at 5.5%. However, private sector wage growth fell notably again from 5.2% to 4.9% and was last lowest in January 2022. For context, private sector pay remains well above any levels seen between the GFC and the Pandemic. The Wholesaling, retailing, hotels and restaurants sector continue to see the largest annual regular growth rates – albeit the rate has slowed from 7.7% to 7.1%. Construction wage growth also remains strong at 6.5%.

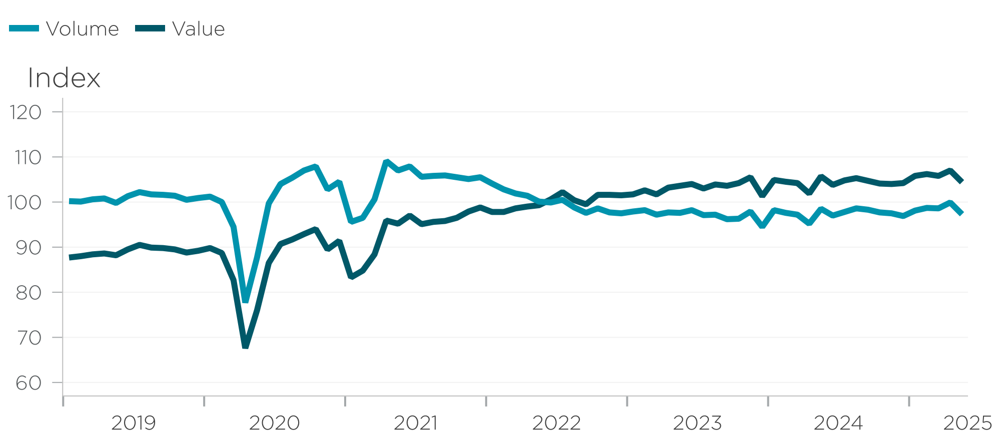
Source: ONS, Macrobond, Cushman & Wakefield

UK COMPOSITE PMI



CONSUMER CONFIDENCE

RETAIL SALES AND VOLUME INDICES



BUSINESS DEMAND

After taking a significant hit in April and May, the Composite PMI is back up to 52.0– up from a preliminary estimate of 50.7 and 50.3 in May Manufacturing PMI increased to 47.7, up from 46.4 the month previous, but still in contractionary territory. Production and new business remains muted. The Services PMI registered 52.8, increasing from 50.9 in May. This was driven by an increase in business optimism but was offset by pricing rising at the slowest pace since February 2021, which whilst bad news for businesses, may be good news for the Bank of England.

BUSINESS FAILURES

There were 2,328 company insolvencies in April, 8% higher than April, and 15% higher than the same month in 2024. This increased was driven by a higher number of CVLs. The rolling 12-month insolvency rate is the equivalent of 1 in 189 companies entering insolvency. In 2024, there had been 23,872 company insolvencies, down from the record 25,128 in 2023, but still high in historical context. The change was mainly driven by CVLs which were 8% lower than those record highs. The number of compulsory liquidations was up 14% on levels seen in 2023, and their highest since 2014.

Company insolvency filings remain at elevated levels through mid-2025, with the latest data showing sustained financial distress across UK businesses. In May 2025, there were 2,238 registered company insolvencies in England and Wales, representing an 8% increase from April 2025 and 15% higher than the same period in 202412.

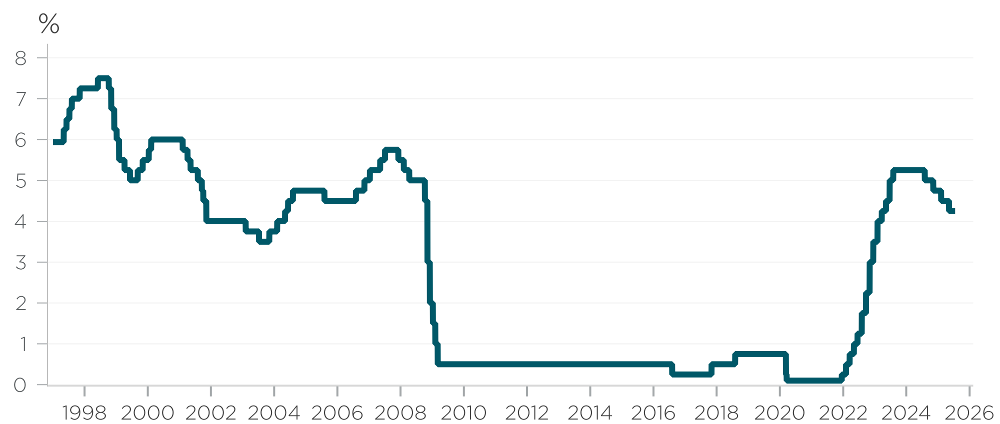
CONSUMER DEMAND

Consumer confidence in June increased by two points from -20 to -18. This was driven by an increase in the perception of the general economic situation. The largest increase was with regards to the view on the general economic situation over the next 12 months. By this measure, confidence increased five points to -28. The savings index increased by one point from 28 to 27.

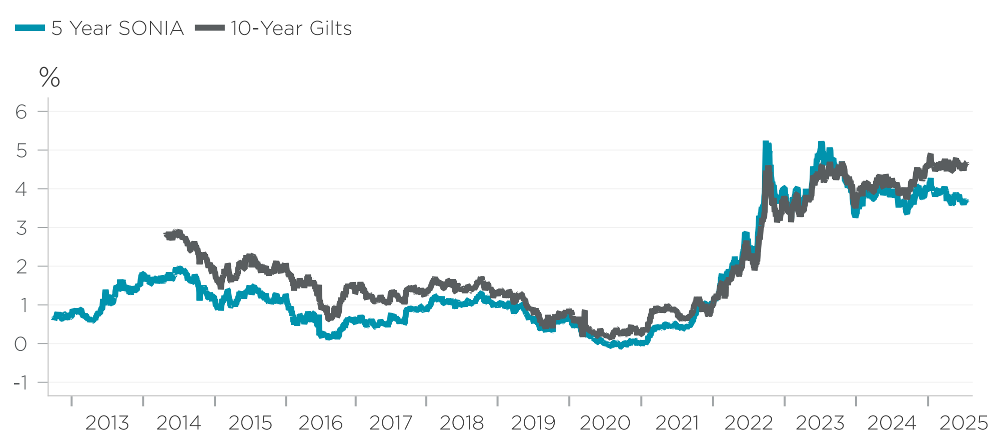
Retail sales volumes, after increasing over four consecutive months, fell by 2.7% in May. This was the largest fall since December 2023, and follows an increase of 1.3% in April. Sales volumes fell across all sectors, with the largest fall being within food stores which saw a 5% decrease month-on-month. Online retail sales fell by 1%, the second consecutive monthly fall – and 2.5% down on the year previous.

Source: ONS, Gfk, S&P Global, Macrobond, Cushman & Wakefield

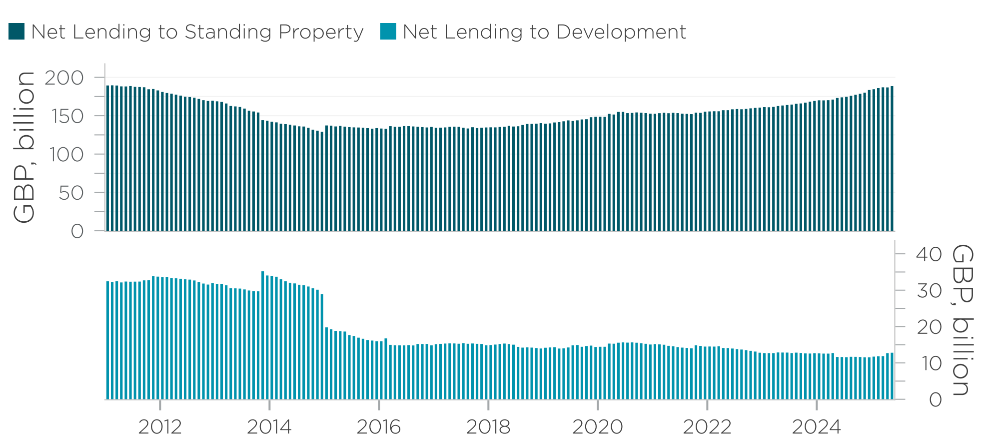
INTEREST RATES



5 YEAR SONIA & 10 YEAR GILTS



LENDING TO COMMERCIAL PROPERTY



INFLATION

CPI rose unexpectedly by 3.6% in the 12 months to June 2025, up from 3.4% in the 12 months to March. CPIH rose by 4.1%, up from 4% in the month previous. Core CPI rose marginally to 3.7% in June, with the largest upward contributions coming from food, non-alcoholic beverages and household goods, partly offset by transport and clothing. Fuel price inflation rose from -10.9% to -9%, while disappointingly for the Bank of England, services inflation rate remained stable at 4.7%. This was partly driven by airfares, but more notably stronger than expected hotels inflation.

MONETARY POLICY

On 19th June, the MPC, as expected held interest rates at 4.25%. This continued the cut-hold-cut pattern that we had seen from the Bank of England. The MPC had cut interest rates in the last meeting from 4.5% to 4.25%. The fact that three members voted to cut to 4% was probably a bit of a surprise, with the notes highlighting the increased slack in the labour market.

The next question is to whether there will be a further cut in August. While the rise in inflation data was unexpected, there are a number of reasons as to why the MPC will still cut – there has been a notable easing of pay growth, and the labour market has softened substantially. Furthermore, the most recent GDP figures have come in under forecast, and the Bank's central forecasts suggest that inflation will drop back after September,.

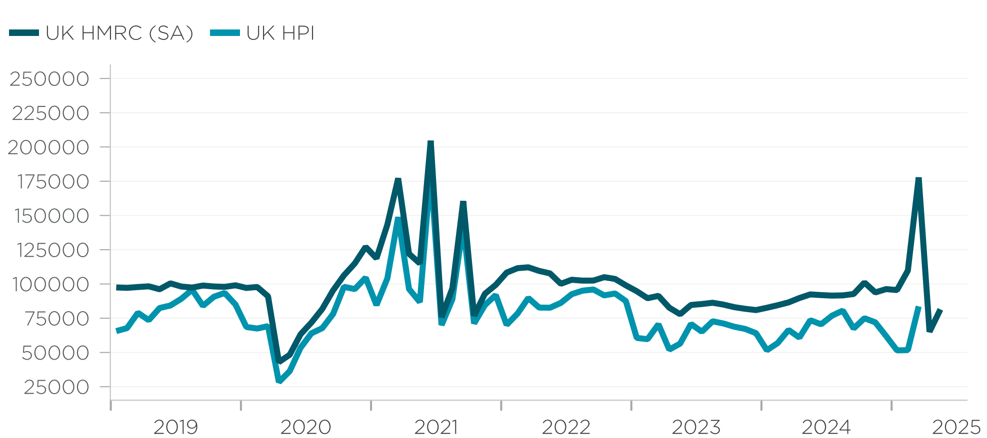
We have seen bouts of bond volatility so far this year, making pricing risk difficult. Firstly, in January, then again in April and July At present, 10-year gilts are running at ~4.6%. In response to the volatility, the Bank of England will be looking to reshape its QT programme running from Q4 2025 to Q3 2026. At present, the tightening is to the tune of £100 billion a year.

The 5-year SONIA at the time of writing was running at ~3.7%.

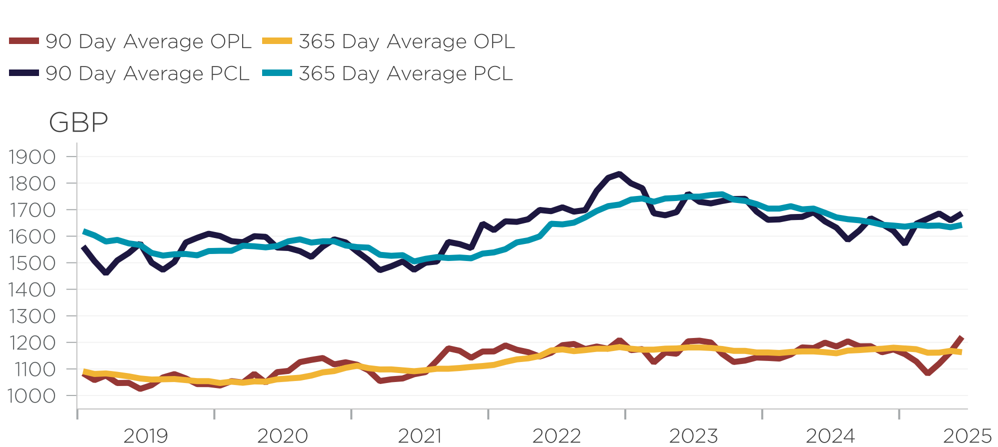
Source: Bank of England, FTSE Russel, , Macrobond, Cushman & Wakefield

UK MONTHLY MORTGAGE APPROVAL & LENDING

UK MONTHLY TRANSACTION VOLUMES



CENTRAL LONDON CAPITAL VALUES



MORTGAGE APPROVALS

The market remains resilient. After a brief pause following spring stamp duty changes, mortgage approvals and transactions have picked up as buyers return. The recovery is underpinned by rising wages, stabilising interest rates, and mortgage rates falling to their lowest since April 2023, boosting buyer confidence. That said, affordability remains stretched, particularly for those coming off fixed-rate deals, and while inflation has eased, it's still above target, with early signs of a softening labour market.

Mortgage approvals are a leading indicator of housing demand. In May, mortgage approvals rose for the first time this year to 63,032 – an increase of 3.9% compared to the previous month and 3.3% above the same month last year. The number of approvals for remortgage was 42% above last year's level.

SALES & PRICING

Residential transactions rose 25% in May to 81,470, following an April dip likely caused by buyers bringing forward purchases to beat stamp duty changes. Despite the monthly increase, transactions were still 12% lower than May 2024.

According to Nationwide, house prices fell 0.8% in June, registering the largest monthly drop since January 2023, with annual growth slowing to 2.1%, down from 3.5% in May. Most regions saw weaker growth in Q2 2025, with Northern Ireland remaining the strongest performer at 9.7% annual growth, despite slowing from 13.5% in Q1. East Anglia was the weakest performer with annual growth of 1.1%.

The price slowdown reflects weaker demand following the increase in stamp duty and rising supply, as more homes return to the market amid improved confidence and the usual summer uplift. According to Zoopla, sales activity is at a 4-year high, with listings up 14% year-on-year, helping contain house price inflation.

PRIME LONDON CAPITAL VALUES

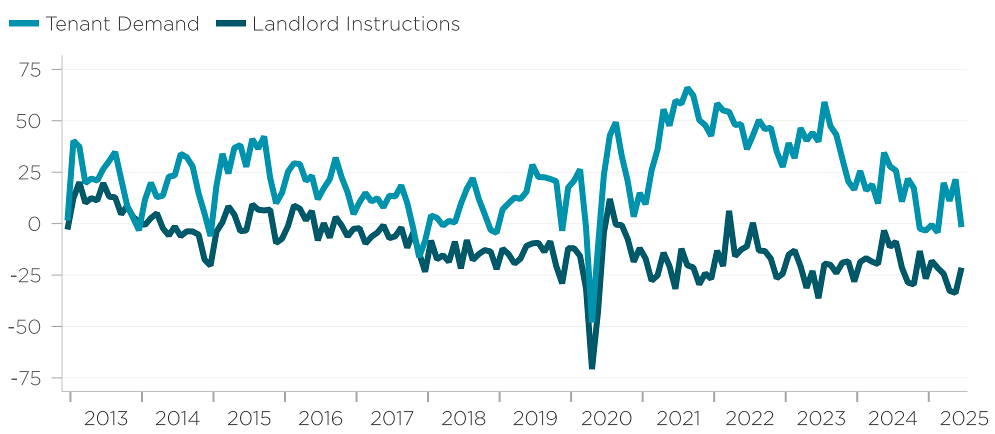
The Prime London market has recently seen declines in capital values due to broader economic and geopolitical uncertainties. Tax policies on non-doms, second homes, and private equity signal a tighter environment for wealth management and property ownership. As a result, London's property market may see shifts in buyer behaviour and continued price sensitivity at the prime end of the market.

As of June 2025, 365 day average values in PCL are £1,642 psf, 0.5% above last month but 2.7% below last year. 90 day average values in PCL for June 2025 were £1,686 psf, 1.6% above May 2025. Achieved discounts to asking prices (365 day average) in PCL for June 2025 was at -4.9%, in line with the previous month.

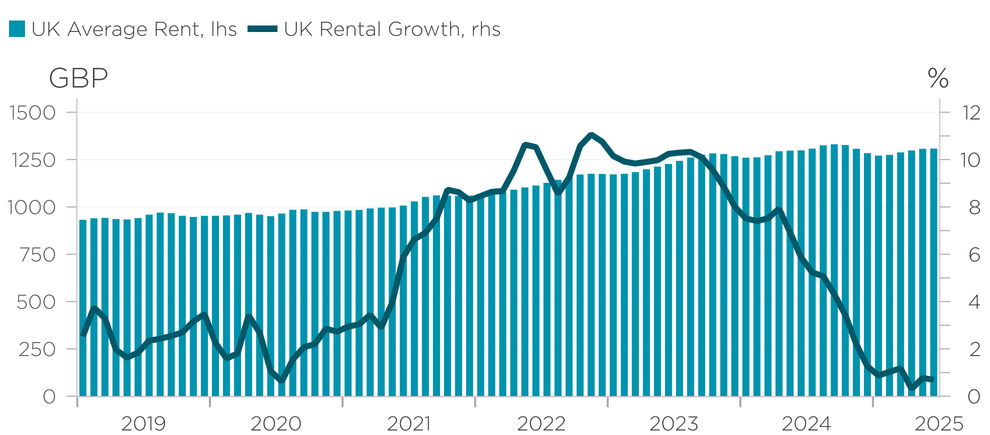
As of June 2025, 365 day average values in OPL are £1,163 psf, 0.4% below last month and in line with last year. 90 day average values in OPL for June 2025 were £1,221 psf, 4.9% above May 2025. In OPL, discounts remained at -2.9%.

Source: HMRC, LonRes, Macrobond, Cushman & Wakefield

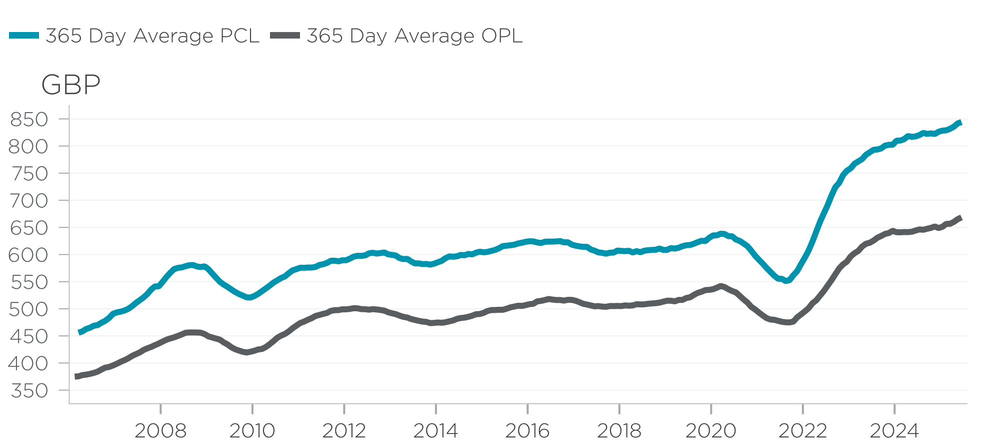
UK LANDLORD INSTRUCTIONS VS TENANT DEMAND



UK ANNUAL RENTS



UK LONDON RENTS



SUPPLY & DEMAND

The supply-demand imbalance, which has in part driven rent rises, is now becoming more balanced, with rental growth slowing to its lowest pace in four years. Looking ahead, we expect the market to settle into a more sustainable growth path, with rental increases averaging around 3% per annum over the medium term. While structural undersupply, particularly in London, will continue to support headline growth, affordability constraints are expected to act as a long-term ceiling on further rental uplift.

Regulation is also playing an increasingly influential role in shaping the market. Recent tax changes have already contributed to some landlords leaving the sector, and the forthcoming Renters' Rights Bill could accelerate this trend. The proposed legislation, which is likely to make it harder for landlords to regain possession, introduce tighter rules around rent increases, and increase uncertainty around tenancy duration, may further dampen investment appetite and reduce available supply. If realised, this would put additional upward pressure on rents, despite growing affordability challenges for tenants. Meanwhile, stricter energy performance standards and higher purchase taxes for private landlords are likely to constrain supply, reinforcing the critical role of BTR in meeting housing demand.

The RICS residential survey for June 2025 showed tenant demand was largely steady over the month, posting a net balance of -2%. At the same time, landlord instructions remain in decline according to a net balance reading of -21%. The measure has been negative since August 2022 and has been at a double-digit negative for the past 11 months. Separately data from the BOE showed that only 8% of mortgages were for buy-to-let properties, one of the lowest levels in recent records. Buy-to-let mortgages accounted for an average of 13.3% of total UK mortgages in the decade to 2022.

RENTAL VALUES

After the initial upswing in rental values at the start of the year, we have seen the rate of growth return to falling. UK annual rental growth in June 2025 was 0.7% down from 0.8% in May. In June 2025 the average UK rent was £1,308 pcm, 0.7% above the same time last year and 0.1% above last month.

In June 2025 annual rental growth varied across the UK, with the greatest rental growth being in Wales (4.9%), followed by Northern Ireland (4.6%), and Yorkshire & The Humberside (4.2%). Greater London (-1.2%), Scotland (-0.3%) and the North East (0.6%) experienced the lowest levels of annual rental growth, and were the only 2 regions to experience negative annual growth.

PRIME LONDON RENTAL VALUES

365 day average rental values in June 2025 show rents in PCL are 0.3% above the previous month and 3.2% above last year. Median monthly rental values are more volatile. One bed flats in May 2025 let for £669 pw, 3.3% below last month but 1.7% above the same time last year. Two bed flats let for £975 pw, 8.7% below the previous month but 5.5% above the previous year.

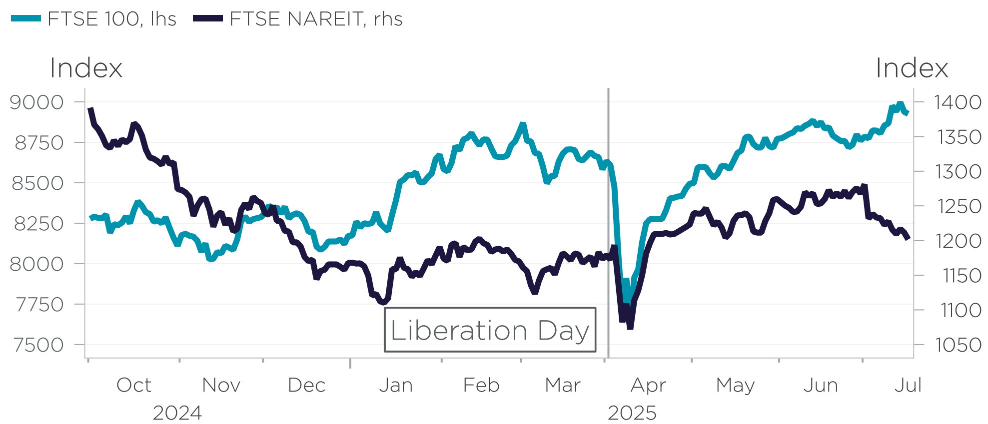
365 day average rental values in June 2025 show OPL rents are 0.5% above last month and 3.7% above last year. In OPL median weekly rents for one bed flats let for £555 pw, 3.5% below last month but 3.1% above last year. Two bed flats let for £800 pw, 5.7% below last month but 8.4% above last year.

Source: RICS, Homelet, LonRes, Macrobond, Cushman & Wakefield

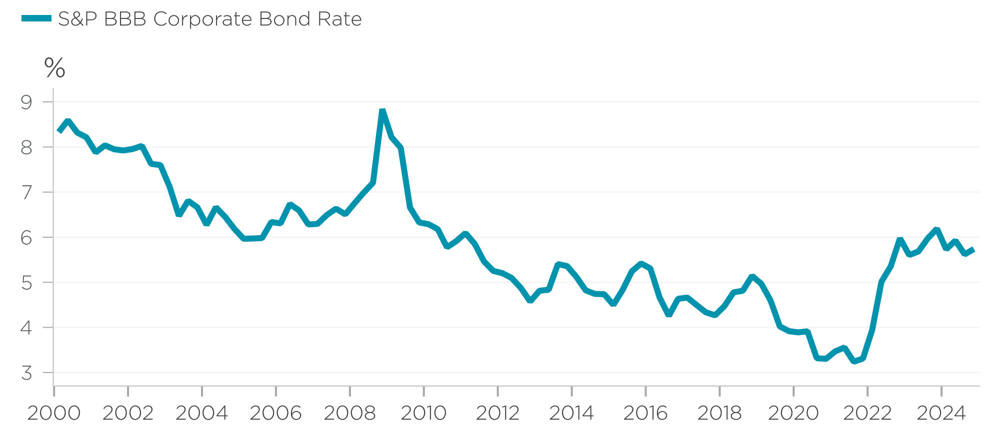
ADDITIONAL KEY CHARTS

Source: FTSE Russell, Federal Reserve, CBOE, ONS, Bank of England, LonRes, Economic Policy Uncertainty, Nationwide, Macrobond, Cushman & Wakefield

FTSE 100, FTSE NAREIT

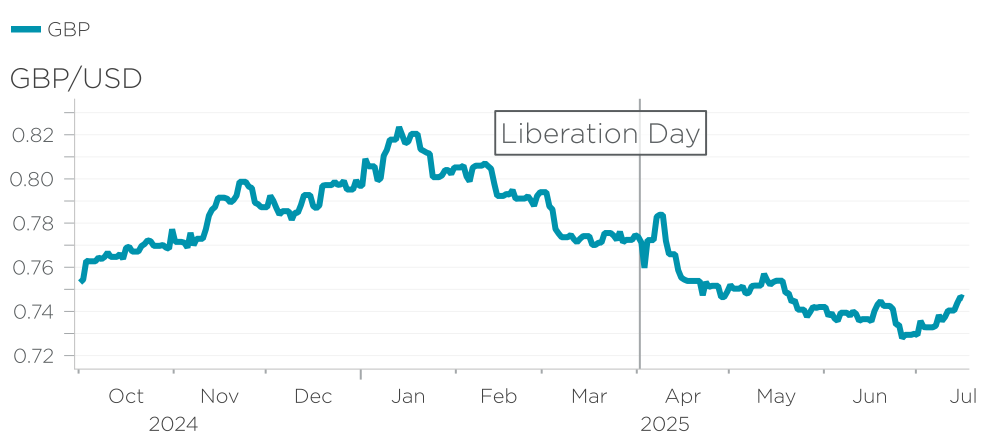


CORPORATE BBB BONDS



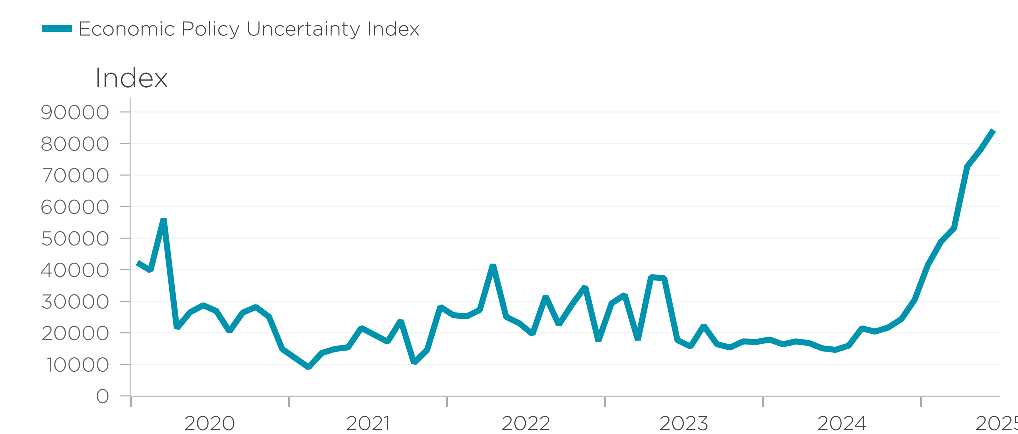
UK EARNINGS GROWTH

GBP USD SPOT RATES

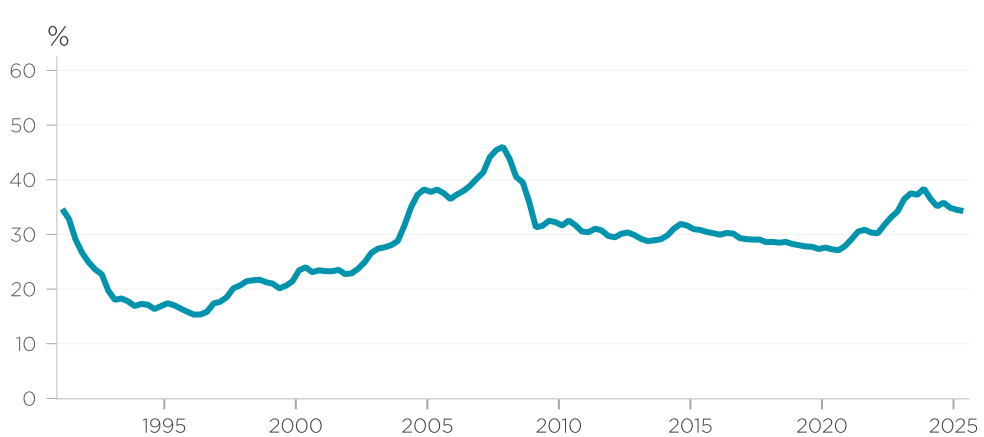


VIX INDEX

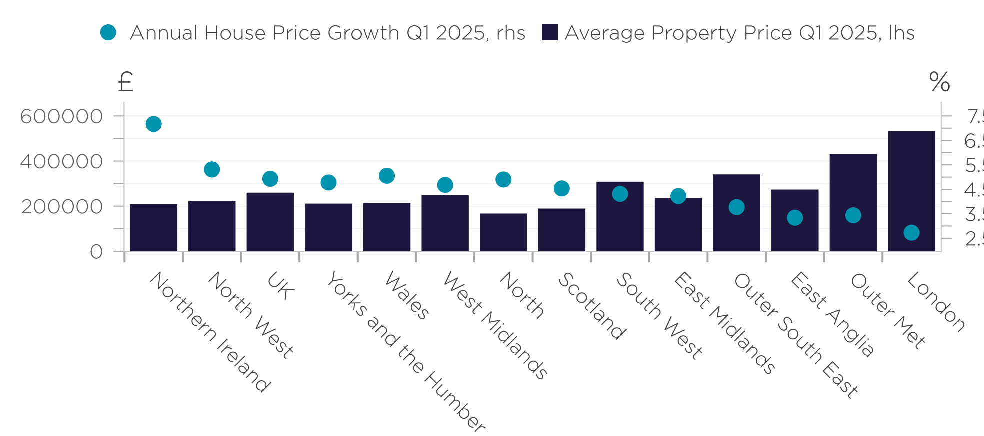
GLOBAL ECONOMIC POLICY UNCERTAINTY INDEX



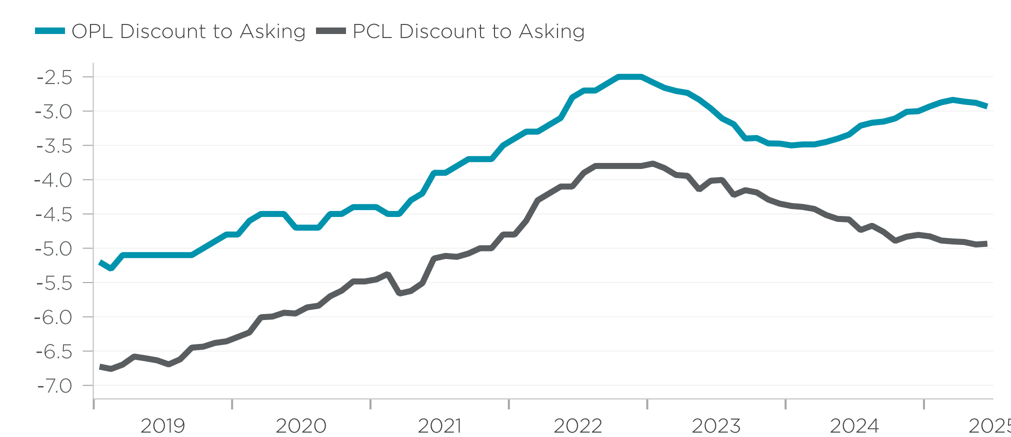
FTB MORTGAGE AS % OF TAKE HOME PAY



REGIONAL HOUSE PRICE GROWTH



CENTRAL LONDON RESI CAPITAL VALUE DISCOUNTS TO ASKING



CUSHMAN & WAKEFIELD

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