RATHBONES

DON'T BET THE HOUSE

Why the Golden Age of Property is Over

Research from Rathbones Investment Management Limited

July 2025

EXECUTIVE SUMMARY

— London house prices have risen just 1.3% a year since 2016, 2.2 percentage points below inflation. And the average UK house price has only just kept pace with inflation, in contrast to the preceding decades.

— The golden age of property ownership in the UK appears to have been between 1980 and 2016 when UK house prices rose a rate of 6.7% per year, rising to 8.5 % in London – well ahead of inflation. This mostly benefitted the so-called Baby Boomer generation. Their children however lack the same opportunities.

— Unlike residential property, equities have continued to rise by more than inflation. A simple mix of 25% UK and 75% global stocks has risen 3.4 percentage points a year above inflation since 2016.

— Many buy-to-lets, and second/additional rental properties are now rendered 'unviable' as businesses due to high interest rates, toughening regulation, and slowing property prices.

— House prices have been closely connected to wages for a long time. Between 1910 and 1998 the average house price was close to 4 times average annual earnings. However, since 2000, prices have climbed as high as 8 times average earnings.

— Mortgage rates bottomed out from the late 2010s until 2021, before rising sharply in the past few years. This has made borrowing less affordable for many, in turn holding back house prices.

— Heightened risks of geopolitical shocks, a greater appetite for government spending, deglobalisation and climate change could all lead to higher and more volatile inflation. By extension, that suggests interest rates could fluctuate around their current level for at least the next decade. If we're correct, that means the boost to house prices from falling interest rates has run its course.

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Don’t bet the house

Property investment is a national obsession. Newspapers have entire sections dedicated to it, daytime TV is full of shows like Homes Under the Hammer (now into its 28th season with over 1500 episodes), and social media is overflowing with influencers touting the returns on offer. The latest data available suggest that there are more than 2.8m private landlords in the UK. Yet the golden age of residential property is already over – and from an investment perspective has been for some time.

Since 2016, house price growth has slowed sharply, higher interest rates have squeezed the buy-to-let business model, and the regulatory treatment of private landlords has become progressively less favourable.

> We have moved from an environment where individuals are emboldened by governments to invest in property to one where policies increasingly discourage it.

The economic and policy outlook suggests that those headwinds aren’t going away any time soon either. As a result, the appeal of buy-to-let or additional property ownership for financial gain appears greatly reduced compared to investing in a well-diversified portfolio of financial assets.

The lost golden age of UK property investing

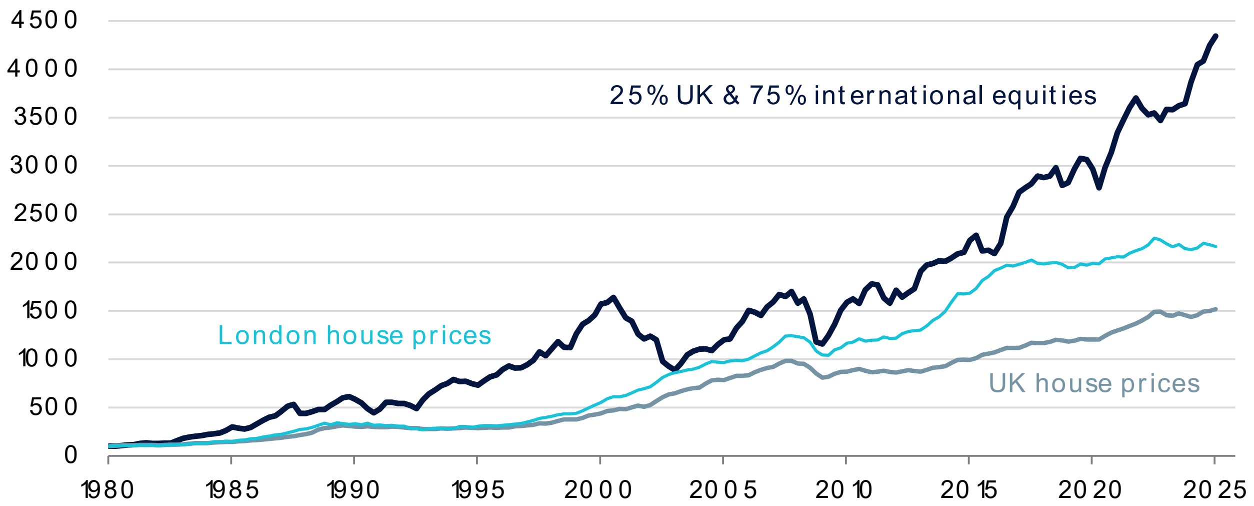
From 1980 to 2016, UK house prices rose a rate of 6.7% per year, with prices in London rising at an annual clip of 8.5%, equating to 3.3% and 5.0% respectively after accounting for inflation (the broader increase in the prices of all goods and services across the economy). Even ignoring rental income (where there is no reliable historical data), that rate of capital appreciation is not to be sniffed at.

Comparing apples-for-apples with other investments is impossible at an aggregate level. On top of the lack of rent data, property comes with maintenance and transaction costs that are difficult to accurately account for across the country. But for some rough context, a simple portfolio made of 25% UK equities and 75% international equities would have risen only slightly faster: 9.0% per year over the same period (5.5% after inflation) ignoring dividends. (Figure 1.)

Considering that many property investors buy with a mortgage, amplifying their returns through borrowing in a way that normal equity investors can’t replicate, it’s clear that UK residential property has given stocks a run for their money and been a solid investment for many over the past half century or so.

It’s also clear that this is no longer the case. The golden age of investing in UK residential property is over.

Figure 1: Value of £100 invested in property vs equities



Sources: LSEG, Rathbones.

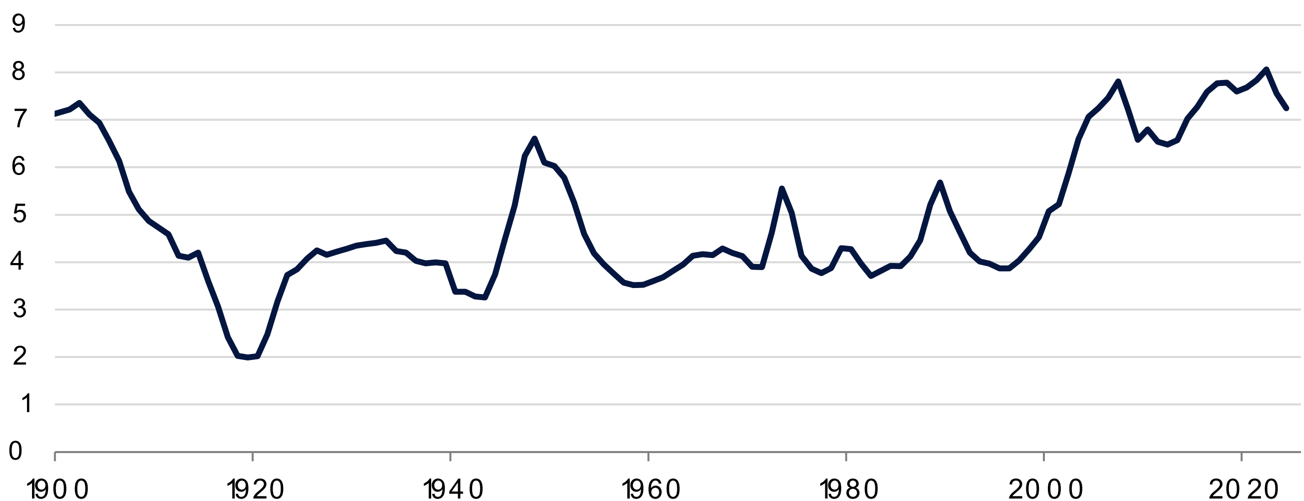
The drivers of the run up in UK house prices above and beyond the broader inflation experienced across the economy are hotly debated among economists and other experts in the field. But there are a handful of factors that we believe have played a role, albeit to different degrees.

One is higher wages. As earnings have risen, households have been able to spend more on housing in absolute terms, even if the share of their income spent stayed flat, increasing the demand for housing.

Looking at the period between 1980 and 1998, for example, the average UK house price rose by 2.6% above inflation per year, and so did the average wage. They didn't move in perfect lockstep, but the average house price was 4.3 times average annual earnings at the beginning and end of the period. In fact, the UK house-price-to-earnings ratio has fluctuated around roughly that level since 1910. (Figure 2.)

House prices have been closely connected to wages for a long time. However, since 2000, the differential has changed markedly, with average house prices rising to as high as eight times average earnings and never falling below six times the typical salary. So, pay can't be the whole story.

Figure 2: UK House-Price-to-Earnings Ratio



Sources: LSEG, Bank of England, Rathbones.

Low Interest Rates Sustained Higher House Prices

One factor helping to sustain higher prices relative to incomes has been declining interest rates.

Double-digit mortgages rates were the norm in the 1980s and early 1990s. But in the second half of the 1990s and the 2000s, rates of 5-10% were the norm, falling as low as 1-2% by the late 2010s and during the pandemic.

This allowed buyers to borrow more money for the same monthly repayments and bid up house prices.

Alongside interest rates, other shifts in the mortgage market probably helped push UK house prices higher by increasing the availability of loans and encouraging property investment. The entry of banks to compete with building societies, the introduction of buy-to-let mortgages, and other regulatory changes and market innovations all essentially increased the amount of money chasing the UK's housing stock.

Even after affordability checks were tightening in the wake of the Global Financial Crisis, government schemes such as interest-free Help to Buy equity loans have at times sought to ease access to home ownership, though that support is no longer available to buyers.

Further, housebuilding has failed to keep pace with population growth over the past half century or so. Estimating the exact contribution to higher prices is complicated by a lack of reliable data and a complex relationship. (The number of households is generally thought to affect and be affected by house prices, as a growing number of young adults currently living with parents demonstrates.)

However, there is evidence from local prices that supply has had an impact, and housebuilding slowed dramatically between the 1980s and 2000s. We believe this played a role in pushing up prices to the higher multiples of average earnings we see today.

Past performance doesn't guarantee future returns.

With property as with any other investment, past performance is no guide to the future. The fact that you won't find this disclaimer in an estate agents' brochure doesn't make it any less true.

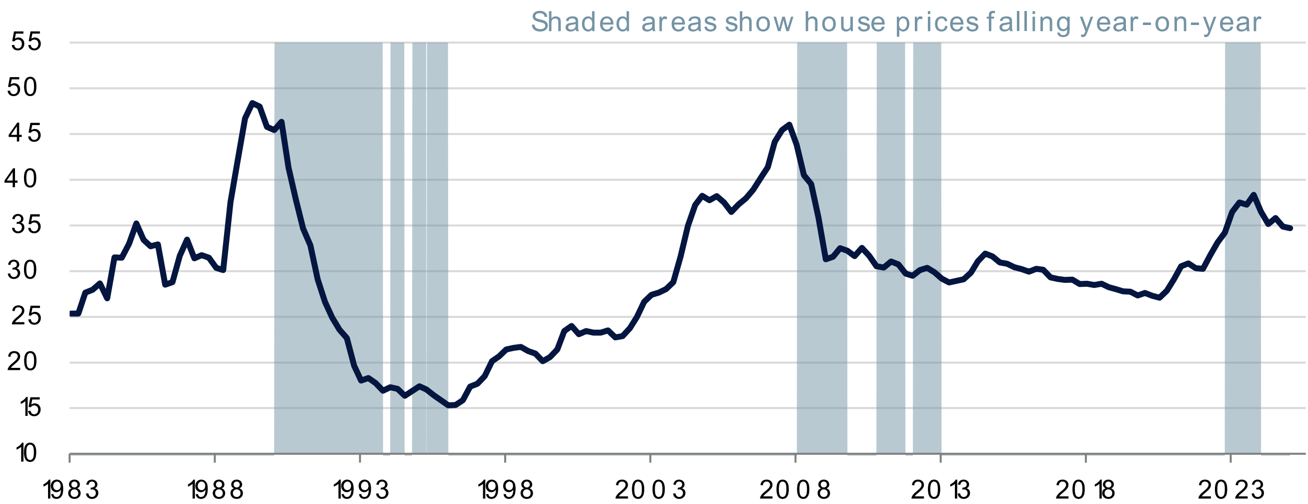
> To believe that UK house prices will rise at the same pace seen between 1980 and 2016 means believing that the previous tailwinds highlighted in this report will persist. But some of them have already faded, and there are good reasons to believe they will continue to fade.

First, the days of wages rising 2-3% faster than inflation are far behind. Even ignoring the decline in wages relative to inflation in the early 2010s, average earnings have only outpaced inflation by 0.5% per year since 2016. Economic theory tells us that wages are closely linked to productivity, and while the exact causes of sluggish productivity growth are debated, we doubt the UK is on the verge of a dramatic improvement anytime soon.

Second, the decades-long decline in interest rates has gone into reverse. Mortgage rates bottomed out from the late 2010s until 2021, before rising sharply in the past few years.

The typical 2-year fixed 75% loan-to-value mortgage rate, for example, has climbed from 1.2% in 2021 to north of 4% since 2022. This is pushing first-time buyers' repayments beyond what has sustainably been affordable in the past. Nationwide data show that repayments for the average house are 35% of a typical first-time buyer's take home pay (with a 25-year 80% loan-to-value mortgage). This is much higher than the norm and has historically preceded falling house prices. (Figure 3.) So we believe that affordability constraints will limit price growth over the coming years.

Figure 3: Typical first-time buyer mortgage payments as a share of take-home pay (%)



Sources: LSEG, Rathbones.

Admittedly, there has been an offsetting effect from borrowers taking out longer-term mortgages and the relaxation of affordability rules. The share of mortgages that will last beyond a borrower hits the planned state retirement age rose from 27% at the start of 2019 to 42% by early 2024, for example, with almost 10% of new lending now being for mortgages of 40 years or more.

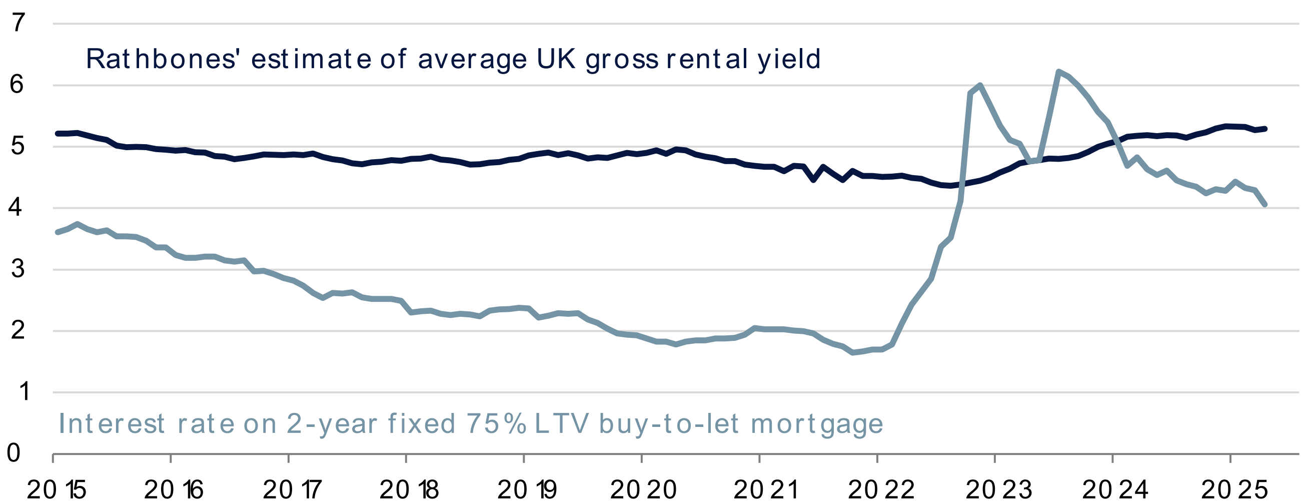
But banks and regulators will probably be hesitant to increase the terms of mortgages indefinitely. And the relaxation of rules pales in comparison to the scale of deregulation in the late 20th century.

Higher interest rates have affected landlords too. Over half of landlords fund their rental properties with buy-to-let mortgages, with around four in five of those being interest only. For the landlords that have relied most heavily on mortgage financing, higher interest rates may even render their business model unviable.

The typical 2-year fixed 75% loan-to-value but-to-let mortgage rate has risen from below 2% a few years ago to around 4% today. Compare that to our best guess of the current average gross rental yield of just over 5% and then deduct maintenance, agency fees, insurance, and any other expenses, and it's perfectly possible that a significant portion of buy-to-lets are unprofitable. (Figure 4.)

This implies less demand from investors and more supply, as existing landlords look to sell.

Figure 4: Buy-to-let mortgage rates & estimate of average gross rental yield (%)



Sources: LSEG, ONS, Rathbones.

We don't expect the recent rise in interest rates to be repeated, but we also doubt we're going back to the abnormally low-interest rate environment of the 2010s. (See here.)

A New Era: Geopolitical shocks, rising inflation and market volatility

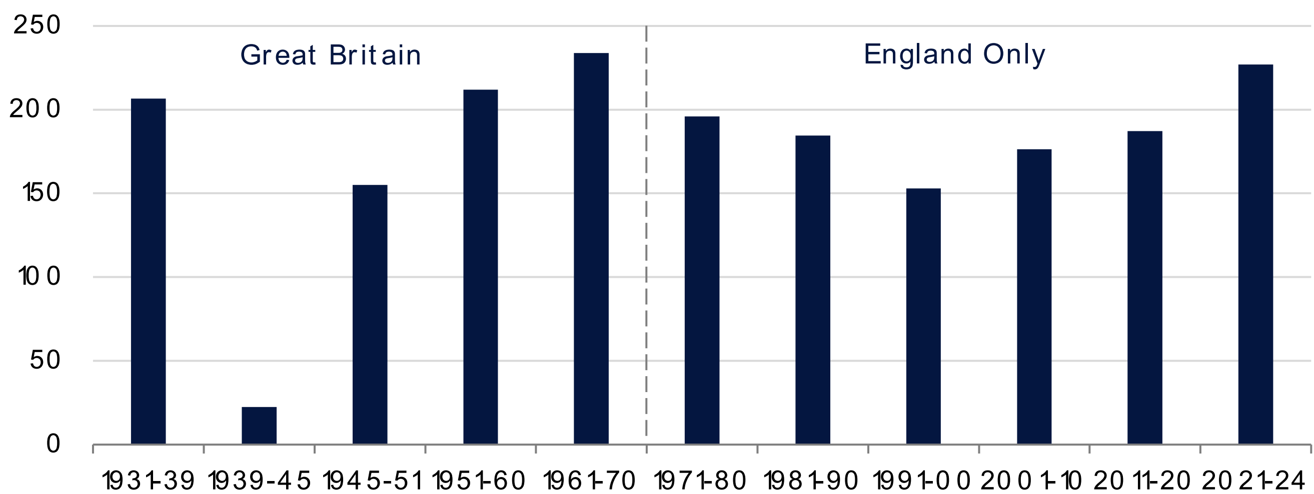
> We think heightened risks of geopolitical shocks, a greater appetite for government spending, deglobalisation and climate change will all lead to higher and more volatile inflation. By extension, that suggests interest rates could fluctuate around their current level for at least the next decade. If we're correct, that means the boost to house prices from falling interest rates has run its course.

Higher interest rates aren't the only headwind facing landlords, either. There have been unfavourable tax changes, including higher rates of stamp duty on additional homes from 2016 (hiked again in 2024), the reduction and removal of mortgage interest tax relief for landlords from 2017, and the removal of beneficial tax treatment for furnished holiday lettings this April. And tighter regulation can add to costs.

Energy efficiency standards are being raised, more frequent tax reporting will be required for more landlords, and the Renter's Rights Bill currently in Parliament will changes the rules around evictions and rent reviews in tenants' favour. In other words, the legislative environment is progressively becoming less favourable to buy-to-let landlords in several areas. That's a clear contrast to the beginning of the period of very strong property returns that began in the 1980s. We see little chance of this changing.

There have also been signs of new housing supply turning a corner. Although the government has been falling short of its housebuilding targets for years, the number of net additional dwellings built has crept back up since about 2015, with the housing stock probably now growing at the fastest rate since the 1960s. (Figure 5.)

Figure 5: Net Additional Dwellings (annual average, 000s)



Sources: House of Commons Library, UK Government, Rathbones.

Lower property returns could be here to stay

With those fading tailwinds in mind, it's little surprise that UK house prices have risen by a much more pedestrian 3.7% per year since 2016. That's almost the same as inflation over the period, meaning that house prices have only risen in line with prices for other goods and services.

In London, which previously led house price growth, prices have grown by just 1.3% per year, which is 2.2 percentage points below inflation. For context, over the same period the portfolio of UK and international equities mentioned earlier rose by 7.2% a year, 3.4 percentage points above inflation.

Given that we don't see a revival of the tailwinds driving UK house prices higher over the decades before past 10 years or so, we think those rates of house price growth are a sign of things to come.

A look further back through history teaches us that house prices are far from guaranteed to rise faster than inflation. An estimate over the longer run from a handful of sources collated by the Bank of England suggests that adjusted for the broad increase in prices across the economy, UK house prices were lower in 1960 than in 1900. Over six decades, they lagged inflation to the tune of 0.2 percentage points a year.

> Property investors benefitted from an almost perfect alignment of factors for much of the past half century, but those gains are of limited value to assess the outlook today.

In our view, with government bonds offering yields above 4% and a wide selection of high-quality stocks available in markets across the world, investing in a diversified portfolio of financial assets offers a more attractive balance between prospective risk and reward for the majority of investors looking to outpace inflation and achieve a reasonable level of growth.

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Rathbone’s Investment Research

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