Carter Jonas

Residential
Update and Outlook

December 2023

Market Overview

Despite the recent easing in inflation, the Bank of England maintained its benchmark interest rate at 5.25% for the third consecutive month, with three members even voting to raise rates further. The overall sentiment among policymakers remains cautious, suggesting that rate cuts may not happen until mid to late 2024, very much dependent upon inflation moving towards its target 2%. And while headline inflation is showing signs of moderation and the worst is likely now over, wage pressures persist, with average earnings still increasing by over 7% annually. This suggests that underlying inflation may still have some distance to run.

In the residential sales market, monthly house prices rose for the third month in a row according to Nationwide, increasing by 0.2% in November, following 0.9% growth in October and 0.1% in September. Encouragingly, Halifax also recorded monthly house price growth, up 0.5% in November after a rise of 1.2% in October. While both indicated annual price falls, the declines are easing and in the case of Nationwide, where an annual fall of -2.0% was recorded, this was the least negative figure since February.

Key Points

- *GDP contracted by -0.3% in October (month on month) following growth of +0.2% in September. All three sub-sectors posted declines on the month with falls in the services sector contributing the most to the overall decline.*
- *Consumer confidence rose two points to -22 in the December GfK Consumer Confidence Index, up from -24 the month before with the Personal Financial Situation sub-measure nearly in positive territory, at -2.*
- *Another welcome decline in the rate of inflation in November, with latest data showing a rate of 3.9% over the year. This was well below the expected figure and the lowest rate of inflation in over two years.*
- *Bank rate was held at 5.25% again at the MPC's latest meeting, the third meeting in a row where they were unchanged. The Bank's governor has said 'more progress' on inflation is needed before they can start thinking more seriously about cutting rates.*
- *The number of job vacancies declined again in the three months to November, down by a further 45,000. This is now the longest consecutive series of declines ever recorded.*
- *Wage growth continues to ease although only very modestly. This month recorded an annual rise of 7.3% down from 7.7% the month before.*
- *November's Services Purchasing Managers Index (PMI) moved into expansion territory at 50.9 but both the Construction and Manufacturing PMI are still in contraction. Uncertainty about current market conditions amongst both businesses and consumers appears to be holding back all sectors.*
- *October's mortgage approvals rose for the first time in four months, increasing by over 8% compared with September. Annual figures are on track to reach around 571,000 if they continue at this pace.*
- *Once again this month both Nationwide and Halifax recorded monthly house price gains of +0.2% and +0.5%, respectively. On an annual basis Nationwide recorded the strongest figure over the last nine months, at -2.0%.*
- *ARLA Propertymark recorded the third month in a row of falling tenant registrations per member branch while the RICS residential market survey respondents also suggested that tenant demand has started to ease.*
- *The pace of rental growth slowed again in November, rising by an average of 8.9%, the lowest rate since August 2022 (HomeLet, annual).*

Economic backdrop

Monthly GDP	CPI inflation	Interest rate	Wage growth
-0.3%	3.9%	5.25%	7.3%

Sources: Bank of England, ONS (wage growth regular pay, excl bonuses)

The Macroeconomy

- Monthly GDP is estimated to have fallen by -0.3% in October, down from +0.2% growth the month before. Disaggregated, services output fell by -0.2% and was the main contributor to the fall in overall GDP. Production output fell by -0.8% driven by large declines in manufacturing while the construction sector also contracted by -0.5%. On a three-monthly basis, there was no growth recorded from August – October.

- The rate of inflation fell again in November, to 3.9% from 4.6% the month before. This is well below the forecast figure of 4.4% and marks the lowest rate of inflation since September 2021. The largest downward contribution came from transport (mainly motor fuel) as well as recreation and culture including computer games and admission prices to theatre and live events. Prices also rose by less for alcoholic beverages, clothing and footwear and health. Importantly, core inflation also declined, down to 5.1% and its lowest rate in almost two years.

- The Bank of England's Monetary Policy Committee held rates at 5.25% again this month by a margin of six votes to hold against three to raise it 25 basis points. Minutes of the meeting show the Bank feels rates will need to remain at high levels for 'sufficiently long' to return inflation to its 2% target. This alone suggests interest rates in the UK could remain higher for longer than previously anticipated. It is also a clear divergence from the US Federal Reserve who recently announced they expect to cut interest rates three times next year.

Labour and employment

- Job vacancies fell yet again in the three months to November, declining by 45,000 or 4.5% since the previous three-month period. At 17, this is now the longest consecutive run of quarterly falls in vacancies ever recorded. In terms of payrolled employees, October's figure was upwardly revised to 39,000 (from 33,000), whilst the November data suggests a fall of 13,000 on the month (also likely to be further revised).

- Total labour force figures indicate no change in overall levels this month with unemployment remaining at 4.2% and total employment at 75.7%.

- Annual growth in wages was 7.3% in the three months to October, down from 7.7% during the previous period. Nevertheless, this growth continues to be very strong by historic standards. Public sector wages were found to have grown by an average of 6.9% while for the private sector it was 7.3%. The highest subsector was in finance and business services which saw an average 8.3% rise followed by the manufacturing sector which recorded 7.4% on average.

Market indicators

- The Manufacturing PMI (S&P Global / CIPS) index rose to 47.2 in November, up from 44.8 the month before and its highest reading since April. Nevertheless, the sector index remains in contraction, where it has been now for the last 16 months. Falling domestic demand continues to impact output which declined again, while new export orders also fell. Employment also declined as did input buying. In an effort to restore profit margins, selling prices rose this month amid falling input costs.

- Expansion was noted in the UK Services PMI for the first time since July with a figure of 50.9 in November, according to the S&P Global / CIPS measure. Increased demand was cited as being primarily responsible while employment levels also rose as long-term business plans and sentiment generally showed an improving picture.

- The Construction sector PMI meanwhile hardly moved in November, sliding slightly to 45.5 from 45.6 in October. House building remains the weakest sub-sector with residential projects being slashed amid unfavourable market conditions. Civil engineering work was the next weakest followed by commercial building. New orders and input purchasing continued to fall while input costs slowed at their lowest rate since 2009.

Consumer demand and sentiment

- Retail sales volumes fell by -0.3% in October, following a (revised) decline of -1.1% in September. The impact of bad weather during the month meant auto fuel sales fell by 2% while food store sales were down -0.3%. Non-food store sales also declined, down -0.2%, disaggregated clothing stores saw volumes fall -0.9% and household goods stores were down -1.1%. Annually, retail sales have fallen by -2.7%.

- According to GfK's long-running series consumer confidence rose again the latest four weeks in December. Although the headline figure of -22 still indicates negativity this is up from -24 the month before and well above the -42 figure at the same time last year. All five sub-measures rose on the month with the Personal Financial Situation (coming 12 months) moving up one point to -2, well above the -29 in December 2022 and an encouraging sign for 2024.

Residential market

Monthly mortgage approvals	Balance of new enquiries	UK annual house price growth	UK annual rental growth
47,383	-14%	-2.0%	8.9%

Sources: Bank of England, RICS, Nationwide, HomeLet

Residential sales

Mortgages and transactions

- Mortgage approvals in England rose for the first time in four months in October, up 8% over September to reach 47,383 approvals, according to the Bank of England. England is on track to see around 574,000 mortgage approvals by the end of 2023, 73% of the long-term annual average.
- On the other hand, transaction numbers declined slightly in October, down by 3% over September's figure, according to HMRC. At current rates transaction volumes are on track to reach just over 1.03 million by the end of the year, around 87% of the long-term annual average of 1.19 million.
- Mortgage rates continue to ease, with a current average of 5.16% (5 year, 85% LTV). This is down from 5.35% one month ago and the peak of 6.18% in July (Rightmove / Podium).

Supply and demand

- Latest RICS residential market survey respondents were less negative this month with new buyer enquiries coming in at -14%, up from -28% last month and the least negative for this metric since April 2022. Disaggregated and this figure is less downbeat across every region and country of the UK. The agreed sales metric also rose, moving to -11% from -23% in October, pointing to a rising trajectory considering the -45% figure back in August. Further encouraging news came from the near-term sales expectations series which came in at +6%, the first time this has been positive since early in 2022.
- In terms of supply, the RICS measure shows relative stability with a net balance of -5% now recorded in both October (upwardly revised) and November.
- According to Rightmove's December monthly report over the year agreed sales are down by just 13% compared with the same period last year. This is somewhat surprising considering how much activity there was during 2022. They also report a small but perceptible pickup in the 'family mover market' with demand in the mid- to second-stepper properties up 9% compared to October 2022 (despite an initial slump in the market following the mini-Budget last Autumn).

UK prices and price growth

- House prices continued their recovery in November, rising 0.2% on the month, marking the third month in a row where prices have risen, according to Nationwide. On an annual basis prices fell by an average of -2.0%, but this is a marked improvement from the -3.3% seen the month before and is the least negative since February.
- Similarly, Halifax also recorded a monthly rise in house prices, averaging 0.5%, marking the second month where this index has seen price gains. Annually, prices here have declined by -1.0% with an average UK house now around £283,615 according to the bank. This means that since the peak of the market in September 2022 average house prices have fallen by just 3.4%.
- Rightmove data indicates a decline in average asking prices of 1.1% over the past 12 months. This is marginally higher than the 1.3% drop recorded in the previous month. On a monthly basis, asking prices fell 1.9%, slightly exceeding the long-term average of 1.5% for December meaning this year's decline appears to be slightly more pronounced.
- ONS data from October (latest) shows average UK house prices fell by -1.2%, annually and -0.7% on a monthly basis. This follows a revised annual decline of -0.6% in September. Average house prices are now £287,782 across the UK. Compared with the start of the latest cycle (February 2020), prices are 25% higher.
- The RICS residential market survey respondents returned a net balance of -43% on the house prices series, yet again becoming less negative following -61% the month before and the third consecutive month where it has moved upwards. The report goes on to say that most regions expect house price declines to start to ease although the South East and East Midlands both returned 'deeply negative' readings.
- On the longer-term 12month horizon for pricing RICS participants returned a net balance of -10% suggesting that price declines are easing and expected to be smaller than previously felt. This is much more upbeat than the -43% returned for this metric just last month.

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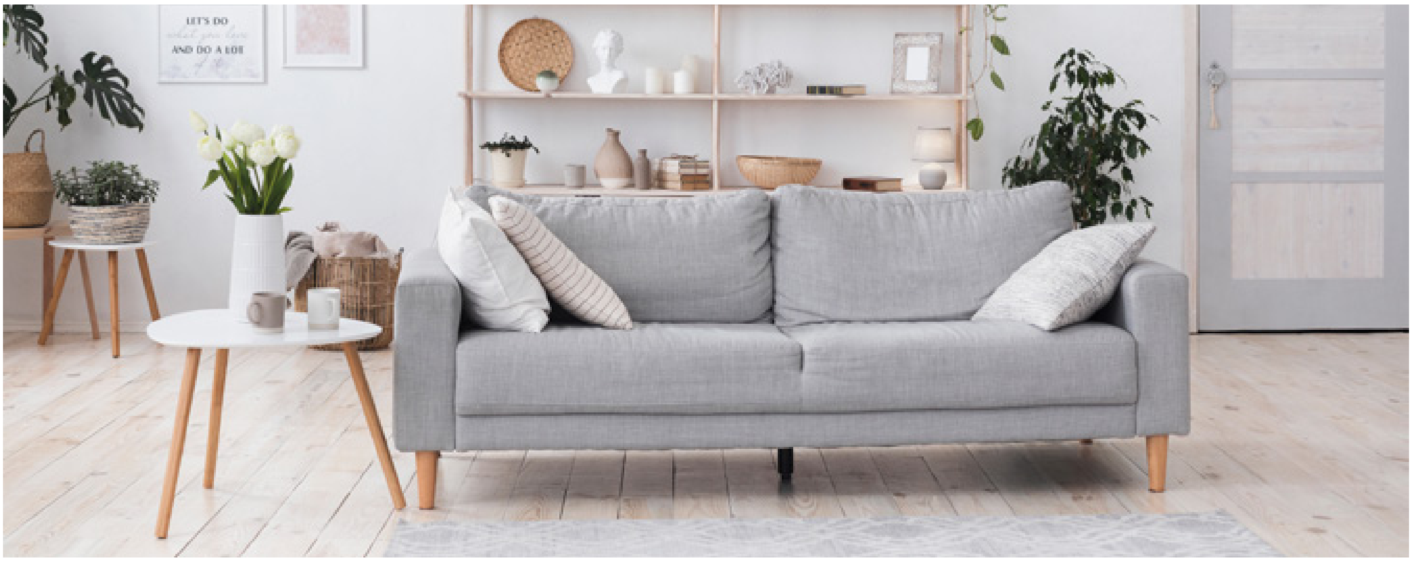

Regional prices and price growth

- The North East was the only UK region where house prices were found to have grown in the 12 months to October, although it only posted a small increase of 0.2%. All other regions saw average price falls with London experiencing the strongest decline at -3.6% over October 2022.
- Across our Carter Jonas office areas Winchester posted the highest annual growth rate of 6.0%. This was followed by West Berkshire at 3.7%, West Oxfordshire (3.5%) and Oxford (3.0%). Several locations indicated price declines, including Dorset (-3.8%), Bath and NE Somerset (-3.4%) and Cornwall (-2.1%), all areas of the country that saw hefty price rises and high demand during the pandemic / post pandemic period.
- Across London just six of the 33 boroughs indicated price rises over the year, including Richmond at the top with a 5.4% rise, followed by Newham (4.4%) and Hounslow (4.0%). On the whole, both the Outer London boroughs and Inner London boroughs indicated overall price falls of -2.1% and -3.3% respectively.

Residential lettings

Supply and Demand

- In ARLA Propertymark's latest report on the lettings sector they found that in October there was another fall in the average number of new tenants registered per member branch. This marks the third successive month of declining registrations and at 86 is a significant drop from 124 in July.
- Meanwhile the average number of properties available for rent reduced slightly in October, down from 12 to 11. Nevertheless, this is still above nine where it stood for the first half of the year.
- On the RICS residential market survey tenant demand looks to be easing moderately as well. Here the net balance of +20% of contributors showed demand rising but this marks the most modest reading of this series for nearly three years.

Rents and rental growth

- Rental growth eased again in November, according to HomeLet, to an average 8.9% annually. This is the lowest rate of growth since August 2022 and the fifth month in a row where the pace of growth has declined. Regionally, Northern Ireland saw the highest rate of growth at 12.5% followed by the East of England at 10.4%. Scotland saw its average rate slow to 9.6%, the lowest growth rate seen here since January 2022.
- Zoopla / Hometrack also recorded a slowing rate of rental growth in their latest report (December), indicating an annual rise of 9.7%. Compare this with 11.9% recorded in the same month last year. The peak of the market has probably now passed with a quickening deceleration in rental growth for the year ahead expected.
- According to RICS participants rental rises are expected to ease this year, with forecast growth of 4% over the next 12 months.

HM Treasury Forecasts for the UK Economy, December 2023

Sources: HM Treasury Consensus Forecasts (December 2023, November 2023 (long-term forecasts))

	2023	2024	2025	2026	2027
Official Bank Rate (%)	5.25	4.65	4.06	3.29	3.11
House price inflation (annual, %)	-3.3	-2.3	-2.2	2.1	5.0
CPI inflation rate (annual average, %)	4.4	2.7	1.9	2.0	2.1
Unemployment rate (%)	4.3	4.7	4.7	4.8	5.0
GDP (annual, %)	0.5	0.4	1.4	1.7	1.6
Average earnings growth (annual, %)	6.8	3.8	3.1	3.3	3.4

Select Market Indicators, latest versus previous data

Sources: ONS (unless otherwise indicated) (final six indicators retrieved 24 November)

	Current	Previous	Direction of change
GDP monthly	-0.3%	0.2%	↓
Inflation rate (CPI)	3.9%	4.6%	↓
Interest rate	5.25%	5.25%	↔
Employment rate	75.7%	75.7%	↔
Unemployment rate	4.2%	4.2%	↔
Weekly earnings growth, regular pay (excl bonuses)	7.3%	7.7%	↓
S&P Global / CIPS Manufacturing PMI	47.2	44.8	↑
S&P Global / CIPS Services PMI	50.9	49.5	↑
S&P Global / CIPS Construction PMI	45.5	45.6	↓
Retail sales volume (monthly % change)	-0.3%	-1.1%	↑
GfK Consumer Confidence Index	-22	-24	↑
Bank of England mortgage approvals (monthly)	47,383	43,675	↑
Nationwide house price inflation (annual)	-2.0%	-3.3%	↑
Halifax house price inflation (annual)	-1.0%	-3.1%	↑
Official UK House Price inflation (annual)	-1.2%	-0.6%	↓
Rightmove House Price Index (annual, asking)	-1.1%	-1.3%	↑
HomeLet Rental Index (annual)	8.9%	9.6%	↓
£ Sterling: $ USD	$1.28	$1.25	↑
£ Sterling: € Euro	€1.16	€1.15	↑
Brent Crude Oil (USD)	$79.76	$81.29	↓
Gold (USD)	$2,040.67	$1,993.40	↑
FTSE 100	7,729.64	7,454.18	↑
UK 5 Year Gilt Yield	3.5675	4.4050	↓

Official House Price data, HM Land Registry, October 2023

Sources: HM Land Registry

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
Winchester	£536,405	5.5%	6.0%
West Berkshire	£425,269	1.1%	3.7%
West Oxfordshire	£413,904	-0.5%	3.5%
Oxford	£502,006	-0.3%	3.0%
South Cambridgeshire	£463,021	0.7%	2.9%
Cambridge	£542,142	5.4%	2.6%
Wiltshire	£349,781	2.4%	1.4%
Leeds	£245,191	-1.1%	1.4%
Somerset	£311,536	1.2%	1.1%
Cambridgeshire	£364,759	0.6%	1.1%
Vale of White Horse	£434,002	-0.9%	0.8%
Devon	£348,249	1.8%	0.5%
South Oxfordshire	£533,122	-2.4%	0.1%
North Yorkshire	£279,957	0.1%	-0.5%
York	£323,397	0.3%	-1.1%
Suffolk	£303,124	-0.1%	-1.2%
West Northamptonshire	£295,740	-0.1%	-2.0%
Cornwall	£316,045	0.1%	-2.1%
North Northamptonshire	£269,384	-0.8%	-2.4%
Bath and North East Somerset	£426,297	-4.1%	-3.4%
Dorset	£358,323	-0.2%	-3.8%

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
North East	£161,237	0.0%	0.2%
West Midlands region	£253,130	-0.5%	-0.3%
North West	£215,719	-0.4%	-0.4%
South West	£330,260	0.9%	-0.6%
Yorkshire and The Humber	£208,188	-0.2%	-1.2%
United Kingdom	**£287,782**	**-0.7%**	**-1.2%**
England	**£305,902**	**-0.8%**	**-1.4%**
East Midlands	£245,632	-1.3%	-1.7%
South East	£389,223	-0.9%	-2.0%
East of England	£348,615	-1.5%	-2.3%
Wales	£214,100	-0.5%	-3.0%
London	£515,504	-3.1%	-3.6%

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£515,504	-3.1%	-3.6%
Prime Central London	£1,125,722	2.3%	-5.6%
South West London	£716,919	-1.0%	-2.7%

Official House Price data, HM Land Registry, October 2023

Sources: HM Land Registry

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Richmond upon Thames	£806,462	4.6%	5.4%
Newham	£433,164	2.0%	4.4%
Hounslow	£472,922	-0.8%	4.0%
Lambeth	£572,212	-1.0%	3.0%
Redbridge	£491,337	-1.7%	1.6%
Islington	£737,539	1.5%	1.3%
Sutton	£439,430	0.7%	-0.1%
Merton	£575,040	-0.4%	-0.2%
Bromley	£512,900	1.5%	-0.5%
Barnet	£597,538	1.4%	-0.6%
Hackney	£639,717	4.8%	-0.6%
Kingston upon Thames	£557,043	2.7%	-1.5%
Lewisham	£452,240	-4.6%	-1.7%
Harrow	£516,260	1.3%	-1.8%
Enfield	£450,106	0.0%	-2.1%
Havering	£419,021	-1.1%	-2.2%
Southwark	£538,663	-1.9%	-2.9%
Waltham Forest	£508,799	1.0%	-3.0%
Kensington And Chelsea	£1,352,475	5.9%	-3.4%
Greenwich	£426,081	-0.7%	-3.4%
Wandsworth	£628,248	-1.1%	-3.6%
London	**£515,504**	**-3.1%**	**-3.6%**
Bexley	£393,227	0.9%	-3.9%
Camden	£820,541	-1.2%	-4.0%
Brent	£542,864	-2.1%	-4.4%
Barking and Dagenham	£334,460	-2.8%	-4.6%
Hillingdon	£447,260	0.3%	-5.0%
Haringey	£574,374	-6.7%	-6.0%
Ealing	£499,337	-3.1%	-6.9%
Tower Hamlets	£450,194	-0.6%	-6.9%
Croydon	£401,511	-4.3%	-7.1%
City of Westminster	£898,968	-2.6%	-7.8%
Hammersmith and Fulham	£716,048	-6.6%	-9.9%
Outer London	£484,194	-0.2%	-2.1%
Inner London	£609,136	-1.3%	-3.3%

HomeLet Rental Index, November 2023

Source: HomeLet Rental Index

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
Northern Ireland	£879	-0.9%	12.5%
East of England	£1,223	0.6%	10.4%
Yorkshire & Humberside	£870	-0.6%	10.1%
South East	£1,365	-0.4%	10.1%
Scotland	£922	-3.2%	9.6%
East Midlands	£872	0.3%	9.5%
North West	£1,014	-0.2%	9.1%
UK (excluding London)	**£1,066**	**-0.2%**	**9.1%**
UK	**£1,279**	**-0.3%**	**8.9%**
Greater London	£2,174	-0.8%	8.1%
West Midlands	£940	0.3%	7.9%
Wales	£867	0.5%	7.7%
North East	£665	-1.8%	6.1%
South West	£1,141	0.1%	5.2%

About Carter Jonas

Carter Jonas LLP is a leading UK property consultancy working across commercial property, residential sales and lettings, rural, planning, development and national infrastructure. Supported by a national network of 34 offices and over 1,000 property professionals, our commercial team is renowned for their quality of service, expertise and the **simply better property advice** they offer their clients.

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