

RESIDENTIAL BRIEFING NOTE MAY 2018

MARKET OVERVIEW AND BREXIT WATCH

Last month's briefing note contained some disappointing economic data, with the poor weather playing a large part. As this briefing note speculated at the time, GDP results may be negatively affected as a result and indeed preliminary Q1 GDP estimates (released end April) came in lower than consensus expectations, at a disappointing 0.1%. This immediately put into doubt whether the MPC would in fact raise interest rates later in the month. As it transpired the Bank did get cold feet following the dim Q1 readings and chose to maintain interest rates at 0.5%, with an interestingly strong vote of 7-2. What's more, the Bank has now revised down its 2018 GDP expectations to 1.4%, from 1.8% as little as three months ago.

In Brexit-related news, as the deadline for completing the UK EU Withdrawal Agreement approaches there are still many unresolved issues, not least of which is still the Irish border question. The Government has pledged to avoid any type of physical infrastructure between either Northern Ireland and the Republic of Ireland or Northern Ireland and the rest of the UK. Therefore, the only type of solution which looks plausible is that the UK remains in some sort of Customs Union with the rest of the EU. Nevertheless, the cabinet committee has already rejected any new 'customs partnership' with the EU on the basis that it would simply be 'unworkable'. To summarise, the three options the Government has, all have potential 'downside risks': 1) a border between Northern Ireland and the Republic of Ireland (economically and politically dangerous); 2) a hard border between Northern Ireland and the rest of the UK at the Irish Sea (Northern Irish DUP have already opposed this option); or 3) a new customs arrangement between the UK and the EU (the UK would then have to abide by many EU rules on products, the environment, etc.). What is widely believed to be the most likely option (albeit short-term) is that the Brexit Committee will concede that the UK will have to remain in the customs union until a more workable solution to the Irish border is agreed.

UK ECONOMIC BACKDROP

- Preliminary **Q1 GDP figures of just 0.1%** was a huge disappointment and well below all consensus expectations of 0.3% (which in itself was even

considered to be low). It must be remembered however that a lot of this **weaker-than-expected growth will be due to severe weather** throughout much of the UK during February and March, and therefore may be reflected in an equivalent boost to figures during Q2.

- Looking at GDP figures in detail, **the construction sector contributed the largest downward pull as it fell by 3.3% during the quarter** – the collapse of Carillion in January coupled with severe weather later in the quarter probably had some strong influences here. The retail services sector also showed some slowdown during the three months to March.
- In **April, retail sales rebounded, increasing by 1.6% over March's figures with growth shown in all sectors apart from department stores**. Both the quantity bought (volume) and the amount spent (value) increased. The strongest contribution to growth this month came from food and online shopping sales. This figure is well above consensus expectations of 0.7% and goes some way to indicating that the falls seen in March were indeed weather-related and that the consumer is still spending.
- Disappointingly the **GfK Consumer Confidence index moved down to points to -9 in April** and below the consensus expectations of -7. **Four of the five subsectors declined in the month**. Looking forward however, with latest wage data starting to turn more positive and inflation on the decline, it is hoped that the Personal Financial Situation indicator at the very least, will start to pull up the other sub-sectors.
- **Manufacturing PMI as reported by Markit / CIPS declined in April, moving to 53.9** from (a revised) 54.9 the previous month. This is a **17-month low** and reflects slowing growth in all sub-sectors of output, new orders and employment. On prices, as inflationary pressure continues to ease input costs and output charges, while still high, are not as high as they were last year. Despite the weakening pace of growth anything over 50 is still growth and this is the 21st month in a row where the index has been above 50.
- **UK Construction PMI (Markit / CIPS) rose at its fastest rate in five months in April. At 52.5**, the index rose sharply compared with the previous month where an index of 47 was recorded. **Residential work was the best performing category**, reaching its strongest rate

since May last year. However, signs that underlying demand is still subdued as new work orders rose only slightly in April. Nevertheless it is apparent that the poor March data was almost certainly weather-related.

- **The last PMI to report, the UK Services PMI (Markit / CIPS) shows a small increase over last month to 52.8**, although this was smaller than market expectations. Within this the employment index fell while new orders only rose very slightly and only a modest rebound of business activity has been recorded.
- April's latest **Consumer Spending Index by Visa shows overall consumer spending has declined again this month, down 2.0% year on year**, matching the decline seen in March. Spending on the High Street fell by the largest amount, down 5.4% annually, the steepest decline in six years. Ecommerce spending saw no change in expenditure.
- Latest data from the **ONS on industrial production, construction and trade (March), continues to suggest the economy is still just spluttering along**. Construction fell by a strong 2.7% during the quarter, while manufacturing output fell for the second month in a row leaving quarterly output at just 0.2%. Trade data was also poor as imports fell by 0.3% although exports rose 0.1% during the quarter.
- **Inflation of 2.4% (CPI) was recorded in April** by the ONS official index, continuing its steady decline after reaching a peak of 3.1% in November 2017. The largest downward contribution this month came from air fares but this was largely a reflection of the timing of Easter holidays. One of the largest contributions to upward growth has been the increasing price of oil which grew 1.2% in the month. Unfortunately **higher oil prices over the coming months are likely to cause inflationary pressure going forward** and CPI is therefore unlikely to decline much further.
- With a vote of 7-2 the **Monetary Policy Committee of the Bank of England held interest rates at 0.5% at their latest May meeting**. Over the last 10 days – following the poor first quarter GDP figures – most analysts did expect a no-change although prior to this the consensus expectation was a rise of 0.25 basis points in May followed by another in August.
- ONS data from the Labour Force Survey (January – March 2018, latest data) continues to indicate that **labour and the employment market is currently one of the strongest metrics of the UK economy**. **At 75.6% the employment rate** is again the highest since records began in 1971 and 0.2 basis points higher than the previous month (75.4%). Conversely the **unemployment rate has held steady at 4.2%**, still the lowest levels since 1975 and well below the 4.6% from one year earlier.
- **Average weekly earnings also showed some encouraging growth this month (Jan-March 2018) with an increase of 2.9%** on an annual basis, slightly higher than the 2.8% last month (excl bonuses, nominal rate). This is the **sixth consecutive month of rising**

wage data and the second month where wages have finally outstripped inflation.

- **The value of Sterling has not reacted well to the poor GDP figures released for Q1 and as a result has declined again against the US dollar, to \$1.34** (at 22 May), down substantially (-6%) from \$1.42 last month. Against the Euro it is also down, although only contracting to €1.14 from €1.15 last month. The differences can be explained by the strong economic data out of the US recently, versus some stagnant data from the Eurozone over the last few weeks.

[\(Click to see the latest market indicators at the end of document\)](#)

RESIDENTIAL PROPERTY MARKET

Sale Prices and Rents

- Data from **Nationwide shows that overall house price inflation edged up in April with annual growth of 2.6%**, up from 2.1% in March. On a monthly basis growth of 0.2% was posted, completely reversing the 0.2% decline seen in March and leading to an overall average UK house price of £213,000.
- Latest figures published by **Halifax show that annual house price growth across the UK in April was 2.2%** (annual), down from the 2.7% indicated last month. House prices on a monthly basis fell by 3.1%, and while this seems like a hefty decline (and indeed it is the largest drop since 2010), it is also a reflection of monthly short-term volatility in the indices; longer-run averages are more reliable of the general market momentum. On average, UK house prices are now £220,962.
- Finally the **official HM Land Registry house price index** again shows stronger house price growth across the UK than the other housing indices, pointing to **annual growth of 4.2% in March**, unchanged from the (revised) 4.2% in February. A monthly decline of 0.2% was recorded however and average house prices in the UK are now £224,144.
- On a regional basis, the official index once again shows that the **Midlands regions and the East showed the strongest improvements** with West Midlands at 6.9% inflation, East Midlands at 5.6% and the East of England 5.8%. All regions bar London showed some fairly buoyant growth this month with **London the only area indicating a second month of declines of 0.7%**.
- Looking at the London boroughs and once again outer London is outperforming inner London. However saying that, even **outer London growth is only just stuttering along at 0.3% annual inflation this month compared with contraction of 0.6% in inner London**. For the first time in many months though there are **two inner London boroughs topping the annual house price growth table in London** with the housing markets in Camden (8.6%) and Islington (6.2%) finally

showing some robustness. Notably, less than half of London's boroughs have posted annual house price growth this month as 19 boroughs showed either no change or yearly declines.

- Change 'at the top' in Carter Jonas's regional locations this month as **Babergh (for Long Melford) has posted the strongest monthly increase of 14.5%, followed by Cambridge (6.5%) and Leeds (5.1%)**. Rounding out the bottom of the table is Oxford which has posted an annual price decrease of 5% this month. This means prices in Oxford are around the same rate as they were in April 2016.
- It is our view that areas which are posting some of the strongest house price declines over the last few months are many of the same areas which have been traditional 'buy to let' investor markets. **As demand in this buy to let sector has dropped off significantly (more details below) a related drop in demand has stifled price growth.** This is particularly true in London and select South East markets.
- The **April RICS Residential Market Survey indicates that prices continue to decline in some parts of the UK, with London and the South East in particular indicating price falls.** The RICS Price balance therefore slipped to -8% this month, the 'most negative figure' since November 2012, but indicates only a very small decline in prices. The Survey further points out that overall the figure is heavily weighted towards feedback from London where the net balance was -65%. Interestingly, **survey feedback shows that the upper and middle priced tiers of the market are the most challenging** in terms of pricing. This points to **affordability issues which may be holding back the market, a theme which we will explore in more detail in Carter Jonas's Summer Residential Market Report in July.**
- According to **Rightmove's latest sales report and house price index (May), national average asking prices are up 1.1% over the same month last year,** down from 1.6% in April. This brings the average asking price to £308,075 across the UK. On a monthly basis however prices rose by 0.8%, up from 0.4% in April. Rightmove notes that seven out of the 11 regions it tracks achieved their highest ever asking prices, with **annual price increase of 4% in East Midlands, West Midlands and Wales.**
- **March's Private Rented Sector report from ARLA (latest update) shows that the rate of tenants experiencing rate increases rose again to 23%,** up from 20% in February. This is slightly less than the same month one year ago when 25% of tenants indicated they had experienced a rental rise. This compares with 32% in March of both 2016 and 2015.
- According to **HomeLet's Rental Index for April (latest data), rents rose by an annual rate of 1.5% on average,** up from 0.9% the month before. London rents alone

showed a hefty increase of 4.5% annually and **9 of the 12 UK regions covered indicated rising rents.** Scotland (3.3%), West Midlands (2.7%) and East Midlands (2.5%) all showed the strongest rates of growth for the second consecutive month.

- HomeLet's detailed data paints an **extremely positive picture across Greater London** as there were no areas in London which showed declining rents and indeed **some areas posted double-digit annual average rent growth:** Haringey & Islington (16.7%), Croydon (12.3%), Hackney & Newham (12%) and Lambeth (10%) all showed very strong data. Of the areas where CJ has a main presence **Chelsea, Fulham, Hammersmith & Kensington (6.8% growth) and Wandsworth (6.5%) were the best performing areas while Westminster indicates no change** over the 12 months to April.

[*\(Click to see detailed house price and rent tables\)*](#)

Activity

- Official figures from **HMRC on the number of property transactions during March 2018 (latest data) shows a sharp drop in sales with 92,270 transactions (seasonally adjusted) a decline of 7% over the month before,** and 12% fewer than the same month one year prior.
- March mortgage figures released by **UK Finance (latest data) also reflected a drop in sales as mortgage lending fell slightly, recording 37,567 loans approved** during the month. This represents a decline of 1% over February figures and 10% below the same month on year ago.
- Digging into this data however and **the majority of the decline in new mortgages has come from the buy-to-let (BTL) sector.** With a seasonally adjusted figure of 5,500 BTL mortgages in March, this is 19% below the same time one year ago. On a quarterly basis, the first three months of this year has seen 11% fewer BTL mortgages compared with 2% more first time buyer mortgages over the same 3-month period.
- As with the above datasets, **house purchase lending according to Bank of England also disappointed in March, falling for a second month** to 62,914 approved mortgages, reflecting a drop of 1.4% over February's data and 6.8% below the same month one year ago. Mortgage approvals have therefore remained within this limited range (60,000-70,000 per month) for the last four years.
- According to the latest **RICS Residential Market Survey (April), there appears to be a stabilisation of sales activity across the UK,** particularly in comparison with recent months. New buyer enquiries were unchanged this month, after four straight months of declines. The Survey notes that it has now been thirteen straight months without a positive reading on this indicator. **The agreed sales indicator also held**

steady this month, although regional differences are acute with sales only rising in four of the twelve regions. Notably however, London was one of those four regions.

- In Rightmove's May House Price Index report it was found that the number of **sales agreed by estate agents so far in 2018 is down 5.4% over the same period last year**, with London and the commuter areas across the South East marking the strongest declines of 8.5% in the South East, 7.8% in East of England and 6.9% in Greater London.

- The latest PRS report from **ARLA (March, released April)** shows that the **average supply of rental stock managed per branch rose 2% in March to an average of 179**. Supply was the highest in East Midlands with an average of 284 properties per branch while London recorded the lowest at 93 properties per branch. **Demand however rose sharply, up 8%** in March, with agents registering 66 new prospective tenants per branch.

Figure 1 Five-year **Economic** Forecast Tables, Experian, May 2018 (latest data)

Source; Experian, UK: core macroeconomic forecasts (annual)

Metric	2018	2019	2020	2021	2022
CPI	2.45%	1.98%	2.00%	2.00%	2.00%
RPI	3.33%	2.85%	3.00%	3.27%	3.35%
Interest Rates (Bank Rate)	0.61%	0.92%	1.21%	1.71%	2.32%
House Price Growth	2.04%	2.73%	3.51%	3.37%	3.98%
GDP Growth	1.29%	1.50%	1.52%	1.68%	1.71%

Figure 2 Key Market Indicators, latest data versus previous data

Sources: ONS (unless otherwise indicated)

Market Indicators	Current	Previous	Direction of change
GfK Consumer Confidence Index	-9	-7	↓
Retail sales volumes (monthly % change)	1.6%	-1.1%	↑
1.6%	53.9	54.9	↓
-1.1%	52.5	47.0	↑
IHS Markit / CIPS Services PMI	52.8	51.7	↑
Visa's UK Consumer Spending Index	-2.0%	-2.0%	↔
Inflation rate	2.4%	2.5%	↓
Interest rate	0.5%	0.5%	↔
Employment rate	75.6%	75.4%	↑
Unemployment rate	4.2%	4.2%	↔
Weekly earnings growth (not incl bonuses)	2.9%	2.8%	↑
£ Sterling : \$ USD	\$1.34	\$1.42	↓
£ Sterling: € Euro	€1.14	€1.15	↓
Nationwide annual house price inflation	2.6%	2.1%	↑
Halifax annual house price inflation	2.2%	2.7%	↓
Official House Price annual inflation (Land Registry)	4.2%	4.2%	↔

Figure 3 Official House Price data, HM Land Registry, March 2018

Source: HM Land Registry (March 2018, latest data)

London	Average Price	Monthly Change (%)	Annual Change (%)
Greater London	£471,944	-0.9%	-0.7%
South West London	£658,583	1.0%	-2.9%
Prime Central London	£1,178,013	-3.5%	-3.5%

CJ Regional Locations	Average Price	Monthly Change (%)	Annual Change (%)
Babergh	£303,253	6.5%	14.5%
Cambridge	£448,243	3.9%	6.5%
Leeds	£176,960	-1.1%	5.1%
Suffolk	£239,961	0.3%	4.9%
Winchester	£426,083	2.8%	4.9%
Cambridgeshire	£292,979	0.5%	4.8%
West Berkshire	£354,104	1.5%	4.5%
Northampton	£205,716	-0.9%	4.4%
Wiltshire	£272,303	-0.2%	4.3%
Harrogate	£279,280	-1.0%	2.2%
York	£240,743	0.5%	1.6%
Bath and North East Somerset	£329,011	-2.4%	1.2%
Oxfordshire	£350,034	-0.3%	0.8%
Oxford	£390,309	-1.3%	-5.0%

UK Regions	Average Price	Monthly change (%)	Annual change (%)
West Midlands	£175,824	-0.3%	6.9%
East of England	£291,415	1.0%	5.8%
East Midlands	£184,736	-0.6%	5.6%
North West	£157,461	-0.3%	5.2%
South West	£249,839	-0.3%	4.9%
United Kingdom	£224,144	-0.2%	4.2%
England	£240,949	-0.3%	4.0%
Yorkshire and The Humber	£155,251	-0.3%	3.7%
Wales	£152,999	-0.1%	3.5%
South East	£320,682	-0.2%	3.3%
North East	£124,381	-1.5%	2.1%
London	£471,944	-0.9%	-0.7%

Figure 3 Official House Price data, HM Land Registry, March 2018

Source: HM Land Registry (March 2018, latest data)

Note: Boroughs in orange indicate an Inner London borough.

London boroughs	Average Price	Monthly Change (%)	Annual Change (%)
Camden	£884,201	3.8%	8.6%
Islington	£660,310	3.1%	6.2%
Redbridge	£422,551	-2.3%	4.9%
Barking and Dagenham	£291,159	-0.8%	4.7%
Bexley	£343,144	0.4%	4.3%
Havering	£369,313	0.4%	3.3%
Enfield	£393,500	-0.7%	2.7%
Sutton	£378,555	1.7%	2.0%
Kingston upon Thames	£494,564	-0.1%	1.9%
Bromley	£443,179	-0.8%	1.7%
Southwark	£520,217	2.9%	1.1%
Lewisham	£413,413	-0.2%	0.6%
Brent	£487,469	0.4%	0.5%
Greenwich	£379,786	-1.9%	0.3%
Lambeth	£509,846	-1.3%	0.2%
Waltham Forest	£436,859	-2.7%	0.0%
Haringey	£557,234	-1.9%	-0.3%
Hackney	£531,788	-4.6%	-0.7%
London	£471,944	-0.9%	-0.7%
Merton	£491,078	-2.4%	-0.8%
Harrow	£462,224	-1.6%	-0.9%
Croydon	£363,472	-1.1%	-1.4%
Barnet	£536,182	0.9%	-2.4%
Kensington And Chelsea	£1,343,582	-2.4%	-2.6%
Hammersmith and Fulham	£729,666	1.2%	-2.8%
Wandsworth	£604,613	1.7%	-2.8%
Hillingdon	£401,454	-2.3%	-2.9%
Richmond upon Thames	£641,470	0.0%	-3.0%
Ealing	£469,802	-1.5%	-3.3%
Hounslow	£396,271	-0.6%	-3.5%
Newham	£351,114	-0.1%	-3.7%
Tower Hamlets	£444,209	2.9%	-4.0%
City of Westminster	£1,012,444	-4.9%	-4.6%
City of London	£742,490	-3.4%	-13.1%
Outer London	£423,863	-0.8%	0.3%
Inner London	£578,955	0.2%	-0.6%

Figure 4 HomeLet Rental Index, April 2018
(£ per calendar month)

Source: HomeLet Rental Index, April 2018 (latest data)

Region	Rent (latest data)	Monthly change (%)	Annual Change (%)
London	£1,588	1.2%	4.5%
Scotland	£653	1.4%	3.3%
West Midlands	£679	0.0%	2.7%
East Midlands	£619	-0.5%	2.5%
North West	£692	0.4%	2.2%
Wales	£597	0.2%	2.1%
UK	£918	0.7%	1.5%
Yorkshire & Humberside	£625	0.3%	1.0%
South West	£808	1.1%	0.7%
East of England	£907	0.2%	0.3%
South East	£999	0.1%	-0.4%
North East	£523	2.8%	-0.4%

An explanatory note on HM Land Registry data:

Land Registry data referenced, is monthly data. Prices and activity are subject to future and past revision as there is a lag on the registration of property sales. Further, transaction data lags average price data by two months, while average price data itself is 6-8 weeks behind publication date. Monthly data reflects only sales which occurred that month and price changes referenced are average prices for that month versus the same month one year prior.

For further information on how land registry compiles figures and what statistical methods are used, visit <http://landregistry.data.gov.uk/app/ukhpi>

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 38 offices and 700 property professionals, our commercial team is renowned for their quality of service, expertise and the **simply better advice** they offer their clients.

Residential Research

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