

RESIDENTIAL BRIEFING NOTE

October 2018

Executive Summary

- Consumer confidence fell in September although the big ticket item purchase sector is still positive which is at least some good news for the retail sector.
- The Manufacturing PMI rose this month however the Construction and Services PMI's both declined. Overall though the economic picture painted by these three PMI's is one of sufficient strength to post some healthy Q3 GDP figures.
- Lower-than-expected inflation data of 2.4% in September is encouraging and now in line with BOE forecasts.
- Both the Nationwide and Halifax house price indices this month indicate a softening market, albeit one that is still experiencing house price growth. Posting annual house price growth figures of 2.0% and 2.5% respectively, both cite a tightening of supply while demand levels remain robust, as reasons for continued growth.
- The tight labour market persists resulting in sustained wage growth again this month, up 3.1% over last year.
- Regional house price growth variances remain, with London and the South East again lagging behind the others in both indices.
- Activity in the mortgage market indicates no significant change this month with activity this year indicating a stable, if moderate market overall.
- The picture in the rental market also shows strong regional differences: overall annual UK rental growth is 1.7% but unlike the sales market, London rental growth was strong at 3% annually compared with the North East which posted declines of 1.9%.

Market Overview and Brexit Watch

The end of the EU summit in Brussels resulted in no major breakthrough on the main issue of how to avoid a hard border between the Republic of Ireland and Northern Ireland. As the two sides failed to reach a deal, Theresa May has mooted that an arrangement could be made whereby the transition period is extended "for a few months" and that having the option to do so would give more time to help solve the issue. The proposed extension has weakened the PM's domestic position but both the leader of the EU Council Donald Tusk, as well as the EC President Jean-Claude Juncker appeared to be supportive of this and that it is a good idea. However, if such an extension is agreed this only prolongs negotiations and indeed uncertainty. The financial markets, the housing market and the economy generally are sensitive to uncertainty and extending this ambiguity about the future relationship, borders and trade deals can lead to further malaise in all of these markets.

UK economic backdrop

- Visa's **Consumer Price Index for September indicates that consumer spending rose by 0.2%** in the month, following growth of 0.4% in August. **Face to face (high street) sales increased the most, up 1.1%**, compared with a decline of 0.1% in ecommerce (online) spending. On a sectoral basis, the report finds that hotels, restaurants and food and drink saw the highest increases. This is the fourth of the last five months where spending has grown, although it is **still fairly moderate growth compared with previous years**.
 - September's **retail sales figures were weaker than was anticipated, indicating a decline of 0.8%**. Monthly retail sales figures are often volatile though and this follows two months of larger than expected rises, meaning that a decline this month wasn't entirely unexpected. The largest contributor to the decline in volumes came from a 1.5% **decline in food sales, the largest decline of this sector since October 2015**.
 - **September's GfK Consumer Confidence Index fell again this month, down to -9 in September** from last month's -7. A decrease was recorded in four out of the five sub-indexes with the **'economic situation over the last 12 months' and the 'economic situation over the next 12 months' still recording the lowest confidence levels** at -28 and -27 respectively. **Conversely the 'big purchase index' held steady at +6 which is one positive take away**, particularly for the retail sector.
 - **Manufacturing data from September's PMI (Markit / CIPS) shows that the headline balance rose to a surprisingly hefty 53.8** up from a (revised) 53.0 last month. This was a welcome shock as many analysts had built in an expected fall in this month's data. Further welcome news was that **new export orders increased in September, reversing August's contraction** and indicating that the sector may not be as reactive to Brexit uncertainty as maybe had been thought.
 - After experiencing a dramatic decline last month, the **Construction PMI fell again in September to 52.1, down from 52.9 last month**. This is the slowest rate of expansion in this sector for the last six months with civil engineering and infrastructure projects the worst performing subsector. On the other hand, the **house building and commercial construction subsectors both increased robustly** although even these grew at a slower pace this month than last.
 - **Finally, from the Services sector PMI we see that the index has declined slightly this month to 53.9**, down from 54.3 last month. Despite this, September's figure is still relatively healthy and does not give any cause for concern as we expect Q3 GDP services figures will also be robust. Although optimism in the sector remains slightly subdued, this is largely due to Brexit uncertainty and in some cases, global trade concerns. Delving into the data, **job creation was strong**, with the highest figure since February this year. And while **input cost inflation also increased this appears to be down to increased wage inflation** and fuel rises.
 - **There is no October meeting of the Monetary Policy Committee and therefore no change in interest rates this month**. The next meeting will be 8 November and with growing concerns of a no-deal Brexit, it seems unlikely there will be any change.
 - There was a **surprise fall in CPI in September, down to 2.4%** from 2.7% in August and a much lower figure than consensus expectations (2.6%). **Downward pressure on inflation was caused by lower than expected food price inflation coupled with lower inflation in the transport** category as fuel prices declined. Inflation is now in line with the Bank of England's forecast figures and thus takes even more pressure off MPC to raise interest rates at its November meeting.
 - October's Labour Force Survey results show little change in the number of people in work from the previous three months. This means that **employment rate remains unchanged at 75.5% while the unemployment rate also stays unchanged at historic lows of 4.0%**.
 - Wage data from the Labour Force Survey has again shown that firm **data is finally catching up with the anecdotal evidence as wages grew by 3.1%** (excel bonuses), up from 2.9% last month. The tightness in the labour market is now being reflected in rising wages. However, with inflation of 2.5% in August and 2.4% in September this is **only giving households and consumers a small boost in their overall spending power**. Nevertheless, most analysts believe that the tight labour conditions will continue and that wage growth of around 3% will persist at least over the short term.
 - Sterling's value has been volatile over the last month as it continues to be extremely sensitive to whatever Brexit news is coming out on a daily basis. Nevertheless, it has hovered around **\$1.31 USD for the majority of the last month. Against the euro however the pound has surprisingly risen, averaging €1.14** over the last seven days, up from €1.12 last month. Once again however these figures will continue to show unpredictability as Brexit news changes.
- *Click to see the latest market indicators at the end of the document*

Residential property market

Sales Prices and Rents

- **Nationwide's September /Q3 House Price Index shows an average UK rise of 2.0% annually**, and 0.3% on a monthly basis. The index has hovered around 2-3% pa growth over the last 12 months giving further evidence that there has been virtually no change between the supply / demand balance over the period. As this report is a quarterly update, price growth is provided on a regional level as well. As has been the case for the majority of the last 12 months, **London and the South East are lagging**, with London and the outer Metropolitan areas showing declines of 1.7% and 0.3% respectively, while the rest of the South East shows growth of just 0.8% annually. **On the other hand, again the northern and midland areas are still the most robust markets: Yorkshire and Humberside at the top with 5.8% annual growth, East Midlands (4.8%) and West Midlands (4.1%)** not far behind.
- According to the **Halifax's latest analysis of house prices for September**, it finds that following a rather punchy growth of 3.7% in August, **the average UK house price fell by 1.4% month on month, bringing the annual house price growth figure to a more realistic 2.5%**. This rate is now more in line with the Nationwide indices. Interestingly, Halifax's latest report finds September's market rather perplexing as the month normally sees an upsurge in activity following the slower holiday month of August. This didn't happen this year citing that **the 'back to work bounce is nowhere to be seen'**.
- According to the official house price index by the ONS, **UK house prices grew modestly in August, up 3.2% annually**, although this is down from last month's (revised) growth of 3.4%. On a monthly basis prices grew 0.3%, and this **leaves house prices growing at their slowest rate since 2013**. Average UK house prices are now £232,797.
- At a regional level, **house prices across the Midlands are again indicating some of the strongest levels of growth** with the East Midlands at 6.5% and West Midlands showing 5.3%, annually. This **compares with a small decline of 0.2% in London and more moderate increases across the East of England (1.6%) and the South East (1.9%)**. Once again the data points to **affordability being one of the major factors in how growth is playing out in the different regions**, with the high level of prices in London and the South East pricing out and discouraging some would-be buyers.
- Pricing in London appears to have stabilised, with annual growth hovering between 0% and 1% over the last 10 months, indicating little to no growth in virtually every month this year. Within that though there are **still some borough-level differences. Much like the regional data, affordability and higher house prices overall appears to be the influence across London housing inflation, with the outer boroughs performing better (1.2%) than the inner boroughs (-1.6%)**.
- The October issue of **Rightmove's House Price Index finds that the average asking price of properties coming to the market rose by just 1.2%** this month, compared with the same month one year ago, the lowest monthly growth at this time of year since 2010. The report goes on to say that the national average has been dragged down in particular by a decline in monthly prices for two-bedroom properties, the usual target sector for first time buyers and **buy-to-let investors, the latter of which are much less active than usual**. On a regional basis, again the Midlands performed well according to this index as West Midlands asking prices rose by 5.5% annually while the East Midlands show a 4.5% increase. **Compare this with a decline of 1.1% across Greater London and -0.1% across the South East**.
- According to the latest **RICS Residential Market Survey (September)**, latest report, the headline price balance moved down slightly to -2, from +1 in August, **essentially reflecting no change in house prices across the UK**. Once again however the picture is not the same in the various regions. Affordability constraints in some areas means the sales picture is exceptionally subdued putting prices under pressure, particularly in **London and the South East where respondents continue to report steep price falls**.
- **ARLA Propertymark's September report (latest) into the private rented sector reports that this month 40% of tenants experience rent rises**, up from 31% last month and **the highest figure since records began**. It appears that tenants in the East of England experienced this the most as 67% of respondents indicated a rent rise, compared with the South East as just 22% said they had experienced a rise in rents.
- The latest Rental Index from HomeLet (September) shows that **rents across the UK this month rose by an average of 1.7% over the same time last year**. Nevertheless on a monthly basis, average rents are indicating a decline of 0.4% leading to a UK average of £943 pcm, or £780, excluding London. In all, **rents rose on an annual basis in 11 of the 12 regions covered**.
- Looking at the data in more detail, we see that rents this month grew the greatest in Scotland (5.6%),

Northern Ireland (4.4%), the South East (4.2%) and Greater London (3%). Looking at London Carter Jonas locations in more detail, the report shows that **rents rose by an average of 5.0% in Kensington & Chelsea and Hammersmith & Fulham (£1,971 pcm), while rents rose 2.0% in Wandsworth (£1,782 pcm) and 1.5% across Westminster (£2,238).** As a whole, London rents are now averaging £1,640 pcm.

**Click to see detailed house price and rent tables*

Activity

- August data from **HMRC finds that there were just over 99,000 residential transactions across the UK during the month, up 1.3% over July's** (revised) figure but a 2.6% decrease over the same month one year ago.
- Latest August data from UK Finance reports that there were 35,500 new first time buyer mortgages issued in the month, 2% more than the same month one year ago. Home mover mortgages held steady annually, although they were up considerably over last month, showing an increase of 17% over July. **Remortgage data has 'normalised' following the previous months spike, with 37,100 remortgage loans issued in August this is now in line with the 12 month average.**
- Buy-to-let **(BTL) mortgages meanwhile, although up 9% over the previous month to reach 6,000 mortgages issued, are still down 13% over the same month one year ago.** The figure is also in line with the longer run monthly average of 5,900 BTL mortgages issued since April 2016, when the additional stamp duty changes came into effect.
- Latest data from the **Bank of England finds there were 66,440 mortgage approvals during August (most up to date), up 2% over the previous months** figure and no change over the same month last year. This month's figure is also **the highest level of mortgage approvals since January** although the wider picture is showing no substantial change in mortgage approval rates so far this year.
- **The RICS Residential Market Survey for September points to a continued slowdown in new buyer enquiries** with a balance of -11 down from -9 last month. At the same time, new sale **instructions to the market have also declined** for the second month in a row leaving average stock levels on agents' books at record lows. Northern Ireland and Wales were the only regions which reported a rise in sales during September, albeit this growth was very modest.
- **Turning to the lettings market, the RICS survey indicates that tenant demand has increased at the national level for the fourth consecutive month.** The report goes on to say that this increased demand has **not been met with an increase supply** as new instructions to let are still in decline, and that the series for landlord listings has been in negative territory since October 2016. **The overall picture therefore is one where landlords are leaving the market, while tenants are staying** in the rental market as the sales market looks uncertain.
- **ARLA Propertymark's August report (latest) tells us that demand overall fell this month** as letting agents reported registering an average of 64 new tenants through the month, down from 79 in July. Of course the rental market is highly seasonal and this may have played a part in the lower levels of registrants. **On the other hand supply appears to have increased as the number of rental properties managed per branch rose during the month.** Supply was highest in Scotland at 343 properties while London records the lowest at an average of 104 per branch.

HM Treasury **Forecasts for the UK Economy:** September 2018 (latest data)

	2018	2019	2020	2021	2022
Official Bank Rate (%)	0.76	1.11	1.42	1.71	1.99
House Price Growth (annual, %)	2.0	2.4	2.1	2.7	2.9
CPI inflation rate (annual average, %)	2.2	2.1	2.0	2.0	2.1
Unemployment rate (%)	4.1	4.2	4.2	4.3	4.4
GDP (annual, %)	1.3	1.5	1.7	1.8	1.9
Average earnings growth (annual, %)	2.7	2.9	2.9	3.0	3.1

Source: HM Treasury Consensus Forecasts (2018-2019 September 2018, latest) (2020-2022 August 2018, latest)

Select Market Indicators, latest versus previous data

	Current	Previous	Direction of Change
GfK Consumer Confidence Index	-9	-7	↓
Retail sales volumes (monthly % change)	-0.8%	0.3%	↓
IHS Markit / CIPS Manufacturing PMI	53.8	53.0	↑
IHS Markit / CIPS Construction PMI	52.1	52.9	↓
IHS Markit / CIPS Services PMI	53.9	54.3	↓
Visa UK Consumer Spending Index	+0.2%	+0.4%	↓
Inflation rate	2.4%	2.7%	↓
Interest rate	0.75%	0.75%	↔
Employment rate	75.5%	75.5%	↔
Unemployment rate	4.0%	4.0%	↔
Weekly earnings growth (not incl bonuses)	3.1%	2.9%	↑
£ Sterling: \$ USD	\$1.31	\$1.32	↓
£ Sterling: € Euro	€1.14	€1.12	↑
Nationwide annual house price inflation	2.0%	2.0%	↔
Halifax annual house price inflation	2.5%	3.7%	↓
Official UK House Price inflation (annual, HM Land Registry)	3.2%	3.4%	↓

Sources: ONS (unless otherwise indicated)

Official House Price data, HM Land Registry, August 2018

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
West Oxfordshire	£355,612	5.5%	6.3%
Northamptonshire	£231,846	1.0%	5.9%
South Cambridgeshire	£396,250	6.0%	5.6%
Harrogate	£290,082	0.9%	4.7%
Leeds	£183,651	0.9%	4.5%
Northampton	£213,284	-0.3%	4.0%
Suffolk	£246,549	0.4%	3.6%
Bath and North East Somerset	£340,566	1.0%	3.2%
Cambridgeshire	£299,075	1.1%	3.0%
Vale of White Horse	£345,015	-2.0%	2.7%
West Berkshire	£359,424	-4.0%	2.5%
Babergh (for Long Melford)	£285,755	-0.7%	2.0%
Wiltshire	£280,798	1.2%	1.8%
York	£249,951	-0.2%	1.3%
Oxford	£420,797	1.0%	1.3%
Winchester	£427,028	1.9%	0.5%
South Oxfordshire	£400,303	-1.9%	-1.0%
Cambridge	£442,986	0.4%	-2.9%

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

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
East Midlands	£194,718	1.5%	6.5%
Wales	£162,374	1.9%	6.2%
West Midlands	£183,168	0.7%	5.3%
Yorkshire and The Humber	£163,964	1.2%	3.7%
North West	£163,487	0.0%	3.3%
United Kingdom	£232,797	0.2%	3.2%
England	£249,748	0.2%	2.9%
North West	£133,538	1.4%	2.9%
South West	£257,659	-0.4%	2.9%
South East	£329,264	0.1%	1.9%
East of England	£292,107	-1.1%	1.6%
London	£486,304	-0.5%	-0.2%

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

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£486,304	-0.5%	-0.2%
Prime Central London	£1,153,426	2.0%	0.6%
South West London	£677,627	1.6%	-3.1%

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

Official House Price data, HM Land Registry, August 2018

	Average Price	Monthly Change (%)	Annual Change (%)
Kensington And Chelsea	£1,349,791	3.3%	7.3%
Redbridge	£441,249	2.5%	7.3%
Merton	£543,225	2.2%	5.0%
Waltham Forest	£459,076	2.6%	4.8%
Brent	£519,229	1.9%	4.2%
Barnet	£540,275	3.3%	2.7%
Barking	£298,538	0.0%	2.6%
Kingston upon Thames	£505,652	-0.3%	2.4%
Hackney	£583,331	4.1%	1.9%
Havering	£373,241	-0.2%	1.5%
Hillingdon	£420,225	1.1%	1.4%
Newham	£365,947	-0.9%	1.3%
Islington	£680,810	0.0%	1.1%
Richmond	£688,578	3.4%	0.8%
Sutton	£385,915	-0.1%	0.8%
Ealing	£491,592	2.9%	0.6%
Hounslow	£404,413	-1.4%	0.5%
Tower Hamlets	£446,322	-3.3%	0.1%
Bromley	£444,385	0.5%	0.1%
Bexley	£344,370	-0.5%	0.0%
London	£486,304	-0.5%	-0.2%
Croydon	£376,915	0.0%	-0.4%
Lewisham	£416,070	0.0%	-0.4%
Enfield	£398,960	-0.8%	-1.1%
Camden	£846,663	-0.8%	-2.1%
Lambeth	£518,091	0.7%	-2.5%
Harrow	£455,548	-1.1%	-2.6%
Haringey	£550,415	0.2%	-3.2%
Wandsworth	£610,048	1.2%	-3.8%
Southwark	£512,874	1.2%	-4.3%
Greenwich	£386,547	-2.0%	-5.1%
Hammersmith and Fulham	£734,254	0.3%	-6.0%
City of Westminster	£957,062	0.3%	-7.6%
City of London	£761,722	-7.3%	-10.1%
Outer London	£436,347	0.7%	1.2%
Inner London	£583,251	0.2%	-1.6%

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

Note: Boroughs in orange indicate an Inner London borough.

Official House Price data, HM Land Registry, August 2018

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
Scotland	£663	-0.2%	5.6%
Northern Ireland	£664	0.2%	4.4%
South East	£1,043	-1.1%	4.2%
Greater London	£1,640	0.5%	3.0%
Yorkshire & Humberside	£644	-0.2%	2.2%
UK excl Greater London	£780	-0.8%	1.8%
UK Average	£943	-0.4%	1.7%
North West	£708	-1.3%	1.6%
East Midlands	£629	-1.6%	1.5%
West Midlands	£701	-1.0%	1.3%
Wales	£621	0.6%	0.6%
South West	£818	-1.0%	0.5%
East of England	£915	0.2%	0.1%
North East	£519	-1.3%	-1.9%

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

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.

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