Carter Jonas

RESIDENTIAL BRIEFING NOTE JULY 2018

MARKET OVERVIEW AND BREXIT WATCH

This year the ONS's GDP release calendar has been altered and as a result the MPC will not have Q2 figures at its August meeting, with which to arm itself when considering interest rate changes. This means they will need to rely on other indicators in order to get a well-rounded picture of the economy and at a recent event the Bank of England governor seems to indicate that he has already done just that. The governor's comments that recent data had given him assurance that the poor Q1 figures were weather-related and that spending and confidence were looking robust gives the strongest indication yet that they will raise interest rates by 2 August. Saying all this though, inflation this month was below expectations, and with oil prices expected to fall over the coming months, thereby reducing inflation yet further, the MPC may find they don't need to raise rates. Nevertheless, we still moderately expect a 25 basis points rise to 0.75%, and while we had originally anticipated a further rise of 25 basis points rise in November to reach 1.00%, the conflicting data may put this on hold.

The last few weeks have seen the political landscape shaped largely by Brexit news and parliamentary negotiations. The Chequers meeting of MPs that PM May had called, whilst it was a positive step forward for many, resulted in two big resignations. Both David Davis and Boris Johnson felt they could not support the PM in the latest proposals put forward for a new 'customs partnership' with the EU. The new proposals are seen by many as a 'soft Brexit' rather than the 'hard Brexit' favoured by those such as Johnson and Davis. Nevertheless, a 'soft Brexit' is chiefly preferred by industry and the markets improved on signs that this new direction and Brexit strategy may be adopted.

UK ECONOMIC BACKDROP

- June's retail sales figures were slightly disappointing, with **volume sales declining by 0.5% month on month.** Although the warm weather and the World Cup appears to have increased food store sales substantially it would seem that non-food stores then suffered with the lack of footfall.
- Visa's **Consumer Spending Index for June shows a robust month** with an increase of 0.7% (year on year) and the first time since early 2017 we have seen two months in a row of monthly increases. (Do note however that this index tracks spending while the retail sales index tracks volumes of sales). Once again this month **both online sales and high street sales grew compared to the same month one year ago.** The report notes that the solid high street sales over the last two months is the strongest performing two month series since the start of 2016, with the unusually warm weather and the World Cup helping to boost shopping habits.
- Despite the positive sales data in the month, **June's Gfk Consumer Confidence Index actually fell unexpectedly by two points to -9,** down from -7 the previous month. Many analysts expected a no change this month but evidently optimism on the wider economy is still struggling. **Economic expectations over the next 12 months also came in markedly downbeat** at -25 while all of the other sub-sectors declined albeit only very slightly.
- Latest **Manufacturing PMI data for June (Markit / CIPS) was unchanged over last month at 54.4** although this was above market expectations. Input prices due to high fuel costs seems to be a burden for manufacturers but the fall in sterling has proved a boost to exports. All told, the last three months of manufacturing data are painting an overall positive second quarterly figure, rebounding from Q1's disappointing overall contraction in the sector.
- Markit / CIPS **Construction PMI rose to 53.1 up from 52.5 last month and once again ahead of market forecasts.** This latest reading is the strongest pace of expansion in the sector since November with both residential and construction activity showing strong growth. New orders and job creation also **grew solidly, rising at their fastest rates in over one year.**
- Last **PMI update for the Services sector (Markit / CIPS) again showed some very strong readings this month with a figure of 55.1,** up from 54.0 last month. This well exceeded market forecasts and was the strongest rate of expansion since October. This robust figure also provides further assurance that the

poor weather during March did indeed place strong downward pressure on the overall Q1 GDP figure.

- **Monthly GDP estimates show a 0.3% rise on the month to May,** driven by a rise in services output although offset by falling output in both industrial and construction data. To this end, industrial output fell by 0.6% in the three months to May **however on a monthly basis manufacturing increased for the first time in five months.** Furthermore, although construction output declined in the three months to May, it **actually rose by nearly 3% on the** month. Both positive monthly indicators suggest the manufacturing sector may be turning a corner.
- **There is no MPC meeting in July and therefore interest rates remain at 0.5% for the time being.** It is still widely anticipated that the committee will rise interest rates at the August meeting, particularly as latest PMI data are looking reasonably strong. Although provisional Q2 GDP figures had been schedule5Pacd for release in July - which would have given them a better indication of how the economy could withstand a rise - this has since been cancelled with the **release pushed back to 10 August, well after the MPC meeting.** The MPC likes to have as much information on the economy as possible so this may have an impact on their decision.
- There was no change this month in **the inflation rate, as it remained at 2.4% in June. This was well below the 2.6%** increase that many forecasters had anticipated. Fuel, oil and utilities prices added upward pressure on overall pricing through the month while clothing, toys and recreational games provided falling prices and downward pressure, when comparing with the same period last year.
- There was very little change in the labour data this month, albeit it continues to run with good steam. Latest data from the **ONS Labour Market Survey (March – May 2018) indicates that the employment rate rose slightly to 75.7%,** from 75.6% last month. There were an additional 137,000 more people in work than in the previous three months, although the **unemployment rate did not change as a result, staying at 4.2% for the fourth straight month.**
- **Average weekly earnings (excl bonuses) show growth of 2.7% this month,** slightly lower than last month at 2.8%. This is now the fourth month in a row where average earnings have outstripped inflation, again meaning wages are increasing in real terms. Again though, according to the Bank of England's latest (Q2) 'Agents' summary of business conditions', **recruitment difficulties remain widespread across many industries.** This indicates that pay scales will likely continue to increase going forward in order to find and retain the right staff and skills.
- **Sterling's value fell following the resignation of Boris Johnson and continued a slow slide in the days that followed.** Now at $1.31 against the US Dollar (18 July) this is the lowest value since November 2017. Against the Euro the pound also fell, valued at €1.12, again the lowest rate since August last year.

(Click to see the latest market indicators at the end of document)

RESIDENTIAL PROPERTY MARKET

Sales Prices and Rents

- **According to Nationwide's latest figure for June, UK annual house price growth slowed to 2.0%, the slowest rate for five years.** Prices were also up 0.5% on a monthly basis leading to an average UK house price of £215,444. As this was also their quarterly report regional growth and prices were also published. In it they find that **East Midlands was the strongest performer during the quarter with growth up 4.4%** year on year while **London was the only region to record an annual decline of 1.9%.**
- Meanwhile **Halifax's house price index also shows a declining pace of growth for June, with annual UK house prices increasing an average of 1.8%,** down from 1.9% last month. This brings their average UK house price to £225,654 and also reflects a monthly increase of 0.3%. Once again however monthly data in this index seems to be highly volatile and the longer-run quarterly or annual series much more reliable.
- Latest data from **HM Land Registry's Official House Price Index (May 2018) continues to show the slower pace of growth that has been the trend for much of this year already. At 3.0%** average annual growth across the UK this is down from 3.5% last month (revised) and 4.2% during the same month on year ago. This is also the slowest rate of house price growth since August.
- Across the regions, **the pace of house price growth has slowed in every UK region over the last three months.** Admittedly London is the only region which has shown price declines (-0.4% annually, May data) but with the strongest regions showing growth of 6.8% (West Midlands) and 6.3% (East Midlands), these are the slowest rate rises since February, and they have continued a slow and steady deceleration each month since then.
- The **London region shows another slide in house prices overall this month, down 0.4%** over the same period last year, although there was a small 0.1% increase on the month. Once again this month we many of the more expensive, inner London boroughs at the bottom of the growth table. Interestingly, this

month sees average outer London prices also decline. Albeit by just 0.1%, **but this is the first time average house prices have declined across outer London since 2011.**

- Looking at **the regional locations where Carter Jonas has a main presence, and the house price picture is slightly more cheery.** At 8.4% annual growth, Northampton again tops our table, followed by Wiltshire at 6.9% and Bath with 5.8%. Oxford also saw some positive growth this month, showing 1.7% annual increase and a rather robust 4.4% monthly rise. All told, the **Carter Jonas locations are indicating an average house price increase of 3.4%.**
- The latest **RICS residential market survey (June) again points to an overall flat price change** in the near term, moving to +2%, up very slightly from -2% last month. Once again this masks the **differences among the regions with London indicating a net balance of -41%,** the South East at -27% and East Anglia at -10% - all **other regions recorded positive results** showing that they indicate modest house price growth.
- **Rightmove's latest House Price Index report for July indicates virtually no change in average asking prices** across the UK. Average UK asking prices this month are now £309,191, down 0.1% on the month **but up 1.4% over the same month one year ago.** Unlike last month however, stock levels are up, now at their highest level since September 2015 meaning that in areas of over-supply attracting buyers is becoming a very competitive process.
- Interestingly, Rightmove notes that **30% of properties which are currently marketed on their site have seen their asking price reduced** at least once since they were first added to the site. This is the highest level for this time of year, since 2011 and suggests that sellers are not currently realistic with pricing from the start.
- On the lettings side, **ARLA's May PRS report indicate that 28% of tenants reported that they had experienced a rental increase in May,** up from 26% in April. This is the highest level since August 2017 and continues an upward trend which has seen the number of landlords increasing rent costs rise every month since November.
- According to HomeLet's latest Rental Index (June), **rents across the UK rose by an average 1.8% over the same month one year ago**. This again follows three months of previous rises and brings the average rent to £924 pcm, or £767, excluding London. The Index shows that **rents rose in 10 of the 12 regions** researched.
- The more detailed analysis provided by HomeLet indicates that rents rose the greatest in Northern Ireland (5.1%), Greater London (4.7%), West Midlands (4.1%) and Scotland (2.5%). Of the London areas, all of the inner London boroughs indicated strong growth of between 5% and 18% per annum. **Strong rental growth was recorded across Chelsea, Hammersmith and Kensington (5%), Wandsworth (6.8%), Westminster (8.8%),** Islington (12%), and Camden / City of London (16%). Average rents in London are now £1,596, 108% higher than the UK average (excl London).

(Click to see detailed house price and rent tables)

Activity

- Latest figures from HMRC indicates that **property transactions in May increased very slightly by 0.8% over April,** to 99,590 (seasonally adjusted). This is down 0.4% over the same month last year but does seem to indicate that **the recent pace of declining transaction volumes is at least slowing.**
- According to UK Finance, **mortgage lending (seasonally adjusted) rose slightly in May, for the third month in a row.** At 39,244, this is up 2.4% over April's figure. Nevertheless this **represents a decline of 4.3% on an annual basis** following an annual decline of 9% in April and -10% in March. Similar to HMRC data then, this too seems to show that the pace of declining sales volumes is at least slowing, even if it is still down on last year.
- Mortgage lending **data from Bank of England indicates a small and welcome increase in overall approvals during May, up 2.5%** over April to reach 64,256. Although this is down over the same month one year ago, it confirms all of the above data which seems to suggest that at least the pace of decline is easing and thus **we *may* have now seen the trough of the market pass.**
- Meanwhile the **June RICS residential market survey again showed that new sale instructions grew** for the second month in a row, rising to +10% the highest reading since 2013 indicating a **rising number of homes being put up for sale.** BUT, new buyer enquiries are still low and flat, suggesting that even as stock may be coming back to the market, there may be difficulty in finding the right buyers for it. **The survey showed that the stock of unsold homes per agent is still at record lows.**
- Rightmove's July House Price Index shows an **average stock per agent (of homes for sale) across the country is currently at 52 properties, the highest level since 2015.**
- The latest PRS report from ARLA Propertymark dated May 2018 indicates that the supply of rental properties rose to the highest level recorded for 2018 so far. The number of rental **properties managed per branch increased by 4%** in May at 186. Supply was the highest in the East Midlands at 286 per branch. Despite this, the **number of landlords selling their buy to let**

properties remained at five per branch, again the highest levels since records began in 2015.

- **ARLA Propertymark further reports that overall demand for rental properties fell by 16% in May,** as agents registered an average of just 60 new house hunters compared with 72 in April. Demand was highest in London at 71 per branch recorded.
- **RICS latest Residential Market Survey for June shows that this is the 21st consecutive month where fewer properties for rent have come to the market.** It is likely that buy-to-let tax relief changes and buy to let costs generally are having a negative effect on the supply of rental properties. RICS suggests that the **overall effect will be rents rising on average by around 15% over the next five years** as the supply squeeze is set to continue.

OTHER

- Out this week – Carter Jonas Residential Research has just published its bi-annual housing reports for all the regional centres, as well as a national housing market overview. Click through to see all of the regional updates.

Figure 1 Forecast Tables, June 2018

Source: HM Treasury Forecasts, Independent Forecasts (June 2018), Office for Budgetary Responsibility (OBR, March 2018)

	2018	2019	2020	2021	2022
Interest Rates (%) (HM Treasury Consensus)	0.75	1.25	-	-	-
House Price Growth (annual, %) (HM Treasury Consensus)	2.0	2.8	-	-	-
CPI inflation rate (Q4, %)	2.4	1.8	1.9	2.0	2.0
Unemployment rate (%)	4.4	4.5	4.6	4.6	4.6
GDP (annual, %)	1.5	1.3	1.3	1.4	1.5
Average earnings growth (annual, %)	2.7	2.4	2.5	2.8	3.0

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)	-0.5%	1.3%	↓
IHS Markit / CIPS Manufacturing PMI	54.4	54.4	↔
IHS Markit / CIPS Construction PMI	53.1	52.2	↑
IHS Markit / CIPS Services PMI	55.1	54.0	↑
Visa's UK Consumer Spending Index	0.7%	0.9%	↓
Inflation rate	2.4%	2.4%	↔
Interest rate	0.5%	0.5%	↔
Employment rate	75.7%	75.6%	↑
Unemployment rate	4.2%	4.2%	↔
Weekly earnings growth (not incl bonuses)	2.7%	2.8%	↓
£ Sterling : $ USD	$1.31	$1.34	↓
£ Sterling: € Euro	€1.12	€1.14	↓
Nationwide annual house price inflation	2.0%	2.4%	↓
Halifax annual house price inflation	1.8%	1.9%	↓
Official House Price annual inflation (Land Registry)	3.0%	3.9%	↓

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

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

London	Average Price	Monthly Change (%)	Annual Change (%)
Greater London	£478,853	0.1%	-0.4%
Prime Central London	£1,157,594	0.6%	-6.9%
South West London	£662,988	1.3%	-3.2%

CJ Regional Locations	Average Price	Monthly Change (%)	Annual Change (%)
Northampton	£215,781	2.4%	8.4%
Bath and North East Somerset	£277,690	1.9%	6.9%
Leeds	£341,217	1.1%	5.8%
Wiltshire	£297,314	1.7%	5.0%
Cambridgeshire	£450,426	3.1%	4.3%
Harrogate	£177,983	-0.1%	4.3%
Winchester	£240,324	1.5%	4.2%
Babergh	£277,628	-1.2%	2.6%
Oxfordshire	£353,249	1.8%	2.4%
Suffolk	£419,933	4.4%	1.7%
York	£422,957	-0.6%	1.5%
Cambridge	£280,334	-1.9%	1.4%
West Berkshire	£355,169	0.5%	1.3%
Oxford	£241,318	-0.6%	-2.1%

UK Regions	Average Price	Monthly change (%)	Annual change (%)
West Midlands	£177,758	0.1%	6.8%
South West	£190,216	1.7%	6.3%
East Midlands	£251,877	0.1%	3.9%
North East	£226,351	0.1%	3.0%
Wales	£243,583	0.3%	2.9%
United Kingdom	**£157,531**	**0.1%**	**2.9%**
England	**£158,966**	**1.0%**	**2.9%**
South East	£288,808	0.2%	2.4%
Yorkshire and The Humber	£322,096	0.0%	2.2%
East of England	£128,680	-0.5%	1.3%
North West	£148,894	-3.0%	1.0%
London	£478,853	0.1%	-0.4%

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

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

Note: Boroughs in orange indicate an Inner London borough.

London boroughs	Average Price	Monthly Change (%)	Annual Change (%)
Hackney	£546,477	2.2%	8.3%
Tower Hamlets	£483,069	5.3%	7.7%
Havering	£371,986	-0.3%	5.7%
Redbridge	£421,641	1.4%	3.7%
Lewisham	£415,726	0.6%	2.1%
Sutton	£385,144	1.2%	2.1%
Greenwich	£391,833	2.1%	1.9%
Enfield	£401,505	0.9%	1.2%
Bexley	£337,546	-0.8%	1.2%
Haringey	£553,948	1.4%	1.1%
Hillingdon	£413,211	0.2%	1.0%
Kingston upon Thames	£495,357	0.3%	1.0%
Barnet	£546,309	0.2%	0.2%
Richmond upon Thames	£670,655	2.3%	-0.1%
Waltham Forest	£430,946	0.2%	-0.3%
London	£478,853	0.1%	-0.4%
Barking and Dagenham	£282,742	-2.8%	-1.1%
Bromley	£434,766	-0.8%	-1.2%
Camden	£804,951	-4.1%	-1.3%
Harrow	£468,464	1.0%	-1.3%
Newham	£359,896	0.9%	-1.6%
Croydon	£361,461	-1.0%	-2.0%
Ealing	£474,791	-0.8%	-2.4%
Merton	£501,837	1.6%	-2.5%
Lambeth	£503,273	-1.6%	-2.9%
Wandsworth	£605,295	1.7%	-3.8%
Islington	£634,124	0.6%	-3.9%
Kensington And Chelsea	£1,326,653	2.1%	-4.4%
Hounslow	£386,836	-1.1%	-4.5%
Southwark	£496,797	-2.6%	-5.4%
Brent	£462,759	-2.9%	-5.6%
Hammersmith and Fulham	£713,014	-0.1%	-5.6%
City of Westminster	£988,535	-1.4%	-10.0%
City of London	£812,693	9.9%	-13.5%
Outer London	£425,313	0.0%	-0.1%
Inner London	£577,700	0.5%	-1.2%

Figure 4 HomeLet Rental Index, June 2018
(£ per calendar month)
Source: HomeLet Rental Index, June 2018 (latest data)

Region	Rent (£pcm)	Monthly change (%)	Annual change (%)
Greater London	£1,596	0.6%	4.7%
West Midlands	£689	1.6%	4.1%
Scotland	£652	0.3%	2.5%
Yorkshire & Humberside	£629	0.2%	2.3%
UK	**£924**	**0.5%**	**1.8%**
North West	£697	0.7%	1.3%
East Midlands	£622	0.8%	1.3%
East of England	£915	0.4%	1.0%
North East	£529	-0.8%	0.8%
South West	£806	0.1%	0.8%
South East	£1,015	0.7%	0.0%

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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