Carter Jonas

# **RESIDENTIAL BRIEFING NOTE** AUGUST 2018

## MARKET OVERVIEW AND BREXIT WATCH

*The 0.25 percentage point rise in interest rates earlier this month may seem a minor increase, but with the bank rate now at 0.75% this is the highest interest rates have been in almost a decade. While savers may rejoice, those on tracker rate mortgages might feel a small pinch coming. Minutes from the MPC's meeting shows that the decision was unanimous meaning that the Committee feels fairly strongly that the economy and the consumer can handle the rise. There were some key takeaways from the minutes and the associated Inflation Report; for one, GDP forecasts for the UK were increased to 1.8% (from 1.7%) in 2019 while forecasts for global growth were downgraded to 3.5%. The Bank wrote that British households are in a strong financial position and anticipates wage growth will continue over the coming years. Back to interest rates and the MPC noted that there will probably never be a return to previous levels with rates remaining below the 5% level, settling between 2-3% in the long-term. Lastly, and rather crucially for this briefing, the Bank noted that recent falling house prices in London is somewhat of an anomaly and unlikely to be seen in the rest of the country. This is because London's unusually high house prices are disproportionately affected by recent mortgage borrowing stress tests imposed by Treasury while at the same time the buy-to-let market, which is more heavily concentrated in London, has been hit hard by the additional stamp duty charges and tax regime changes.*

*On Brexit, PM May has spent the last few weeks persuading not only her own government but other EU leaders, that her 'Chequers Brexit vision' is the best solution and should be accepted. May had talks with France's President Macron and EU's chief negotiator Jean-Claude Juncker in order facilitate a smoother acceptance of the deal at the October EU Summit. Should this deal be found unacceptable the UK looks very likely to have a 'no-deal' by the time we are due to leave the EU in March 2019. In the short-run a no-deal Brexit means UK trade with EU would revert to WTO but what it may mean in the long-run is not only unknown but contentious and controversial amongst analysts, economists and politicians alike.*

## UK ECONOMIC BACKDROP

- **Second quarter GDP figures were released this month (preliminary estimates) suggesting that the economy grew by 0.4%** over the previous quarter and much stronger than the 0.2% posted in Q1. This figure seems to confirm that the weaker economy during the first quarter was temporary and importantly, the 0.4% growth is **exactly as both the Bank of England and consensus forecasts had predicted, meaning there were no big surprises in the data.**
- According to the July **Consumer Spending Index (Visa, latest release), spending by the consumer was down 0.9%** over the same month one year ago. The largest falls were found in face to face (high street) spending which was down 1.2% however ecommerce (online) also declined 0.5%. The report goes on to show that **food and drink retailing (3.5%) followed by restaurants and bars (2.5%) showed the strongest increases, with the warmer weather probably boosting sales here.** Conversely transport and communication (-4.1%) and recreation and culture (-3.9%) showed the highest fall in sales.
- According to the monthly GfK **Consumer Confidence Index, levels dropped again this month to -10**, down from -9 in June. This is now the 18th month in a row where the Index has registered zero or negative levels. The **biggest drag on the overall index was the 'General Economic Situation' measure which showed -28** this month, compared with a +1 on the 'Personal Financial Situation' measure. Nevertheless the 'Major Purchase Index' measure also decreased to -2, and this may be reflected in further dampening of retail sales, car sales, and house sales over the coming months.
- The IHS Markit / CIPS **Manufacturing PMI for July** fell to a three-month low of 54.0, down from 54.3 last month. It is still well above the long-term average of 51.8 but the month shows the weakest rate of expansion in manufacturing output for 16 months. Interestingly, the numbers suggest that **neither the threat of a no-deal Brexit nor US trade worries seem to have hit the manufacturing sector** too hard this month. The fall in the value of sterling is probably still helping to boost exports.

- **Meanwhile the Construction PMI (Markit / CIPS) rose to a surprising 55.8 in July**, well above market expectations of 52.8. This was the **strongest pace of growth since May 2017** in the construction sector, and **both residential and commercial works grew rapidly.** New orders also increased the most since May 2017, and this helped contribute to the largest rise in employment figures in this sector, since December 2015.
- **The Services PMI fell to 53.5, down from last month's strong showing of 55.1** and is quite a way below market expectations of 54.7. The very tight labour market continues to be borne out in the employment data as **employment rose at the slowest rate in over 2 years although survey responses suggested this was not a result of not wanting to hire** but rather being unable to find the right talent and skills. More positively, the future activity sub-index rose to its highest level since April but the new orders balance fell compared with last month.
- As was widely expected, the Bank of England's **MPC raised interest rates 25 basis points at their August meeting; at 0.75% rates are now the highest they have been since March 2009.** The Bank is clearly more confident that the weak economic patch experienced at the start of the year was probably a temporary condition caused by the bad weather and that the economy and consumers are now able to support a higher rate. Going forward, the MPC made clear that any **future rises will be gradual and limited.** Many analysts therefore expect rates to rise to only around 1.5% by the end of 2020.
- The latest **Consumer Price Index inflation rate (July) showed an increase this month to 2.5%,** up from 2.4% last month and the first time the index has edged upwards since late last year. This increase was largely expected as oil prices have been rising through the year, although note that this was **not as high as the Bank of England forecast rate of 2.6%.** As a result, **rising prices from transport fares produced a large upward contribution to inflation** this month, as well as rising prices in computer games. Interestingly, prices for clothing and footwear actually decreased this month – the first time in over 12 months that this sub-category has seen declining prices.
- Once again labour market data shows how tight employment is across the country. With a **75.6% employment rate** (Apr-Jun), this reflects an additional 313,000 more people in work than the same time last year, and 42,000 more people than in the previous three months. The **unemployment rate is now the lowest since 1975, at just 4.0%**, down from 4.2% last month.
- Interestingly however the tight labour market has not resulted in very strong earnings growth. **Average weekly earnings data shows an increase (nominal rate, excl bonuses) of just 2.7%,** just below last month's (revised) figure of 2.8%. Nevertheless, many analysts still expect wages to grow in the latter part of 2018, particularly as recruitment surveys indicate the increasing difficulties in finding and retaining talent.
- The value of **Sterling appears to be taking the brunt of the increasing possibility of a 'no deal' Brexit. At 13 August the pound is just $1.27** against the US Dollar, a decline of 3% since last month and now the lowest since June 2017. Against the euro the pound is stable, holding at €1.12, no change over last month although still the lowest since August last year.

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

## RESIDENTIAL PROPERTY MARKET

### Sales Prices and Rents

- **Nationwide's July House Price Index showed a modest annual rise of 2.5%, up from 2.0% last month** and reflecting a monthly change of 0.6%. This means that the average UK house price is now £217,010. While the small increase in the annual index looks positive, it is **unlikely to be heralding in a new wave of strong house price growth** going forward. With interest rates now having risen slightly and with further indications that they will rise again over the next 6-12 months, price growth or activity will be modest, at best.
- **Halifax's House Price Index report also shows a pick-up in growth indicating an annual UK increase of 3.3%**, well up from month's 1.8% and leading to a UK average house price of £230,280. This is the strongest annual rise since November 2017 and also reflected a monthly increase of a very robust 1.4%.
- Of course official house price statistics from HM Land Registry always have a lag and therefore current data is only available up to June making comparisons with the above data difficult. Nevertheless, here we see that **UK house prices in June grew by an average of 3.0%**, down from last months (revised) 3.5%, and taking the average UK house price now to £228,384.
- In a regional context, house price growth varies widely as again the **West Midlands posts robust growth of 6.9%, Wales at 4.3% and the East Midlands at 4.1%**. Compare this with London's declining house prices, by 0.7% this month. Interestingly though prices across the South East, while still slow, are up 2.1%. As was discussed in the opening section of this report, we believe that **London house prices are disproportionately negatively affected by recent tax changes in the buy-to-let market, as well as mortgage stress tests** that the Banks are now having to impose, making London's house price growth far less attractive than the rest of the country.

- Looking at London data in detail and once again Prime Central London has been hit hard this month as average prices are down 13.1% compared with the same month one year ago. On a monthly basis, PCL is posting declines of 7.7%. Areas across PCL though seem to be taking the brunt of declining prices as the remainder of **inner London shows declines of 'just' 2.3% while the outer London boroughs show gains of 1.1%** this month.
- Turning to the regional locations where Carter Jonas has representation, and this month we see a rather mixed bag of data. **Northampton again shows the strongest growth at 6.2%** to an average price of £213,288, with Leeds not far behind at 5.2% and Bath posting 4.4%. At the bottom of the table however we have the traditionally more expensive locations such as Winchester (-2.9%), Oxford (-2.2%) and York (-0.6%). This again reiterates the findings which we released in our July National Housing Market report whereby **more 'affordable' locations across the country are attracting more (price-conscious!) buyers leading to stronger growth.**
- RICS Residential Market Survey indicates an **overall price balance of +4%, an increase from +3% last month. Once again however this masks the disparities across the regions**: Scotland, Northern Ireland, the north of England and the Midlands and Wales are all indicating a stronger market, whereas a London price balance of -40% is shockingly low while finally the South East and East of England are also indicating price declines.
- Meanwhile, according to ARLA Propertymark's latest June PRS update, **35% of tenants reported rent hikes in June**, up from 28% last month and the highest level since August last year. This continue the upward trend of the increasing number of landlords hiking rents every month now since November 2017. Those in the **South West appear to be particularly affected, with 48% of tenants reporting a rise this month, compared with just 8% in London.**
- **Rightmove released their Q2 Rental Trends Tracker report this month indicating that asking rents increased 2.7% over the quarter**, up from a 0.2% fall which was recorded during Q1. This brings the **average asking rent to £796 pcm** (excl London). Asking rents increased the most in the South East (4.3%), Greater London (3.4%), and Scotland (3.4%), with no regional areas showing a decrease this quarter.
- **Rightmove's rental tracker also notes that London's new asking rent of £2,000pcm shows an annual growth rate of 3.4%, the highest rate of growth in the area** since 2015 and the first time that London has been at the top of the growth table since Q4 2014. Fuelling this growth is the lack of new rental properties coming to the market this quarter, with the **average number of properties listed down 3.5% over the same quarter last year.**
- In **HomeLet's July Rental Index report, it was found that rents in July rose by an average 1.3%** compared with July 2017. This means that the average monthly rent is £937, or £777 pcm if London is excluded. The index reveals **that 8 of the 12 UK regions posted growing rents** this month.
- Within the detail of the HomeLet report **rents rose the greatest in London this month (annual basis), up 3.3%** to an average of £1,615 pcm. This was matched by Scotland at 3.3% and followed by the West Midlands (3.1%) and the North West (2%). Within the London breakdown rental rises in the double digits were found in Haringey and Islington (12.1%), as well as Camden and the City of London (11.2%). Of the London areas where Carter Jonas has a presence **Westminster rents were found to have increased by 9.1% and 6.6% in Wandsworth** while Chelsea, Fulham, Hammersmith & Kensington and Richmond all grew by a nominal 1%. **Overall, average rents in London are found to be a staggering 108% more than average rents in the rest of the UK** (excluding London).

(Click to see detailed house price and rent tables)

### Activity

- June data from HMRC shows that **property transactions in June declined again, down 5.7% over the same month last year,** there were 96,340 transactions (seasonally adjusted). This is following a decline of 0.8% last month and while **we had hoped that this meant the pace of decline was slowing, unfortunately latest figures do not support that** just yet.
- Meanwhile **latest data from UK Finance (June) shows that mortgage lending (completions) was up, perhaps reflecting a summer boom**? At 32,200 first time buyer mortgages, this is 21% above April's figures and 8% over the same month one year ago. Similarly, home mover mortgages were up 24% over April and 5% over May 2017. Once again however, buy to let mortgages are down considerably over last year's figures. With 5,500 BTL mortgages approved, this is 10% below the same month one year ago. **Purchases in the buy to let market continue to be constrained due to recent tax changes** and we expect that this will be further borne out in the data as the months go on.
- According to **Bank of England's latest monthly data (June), there was another increase in mortgage approvals this month**. Totalling 65,619 loans approved in June this marks a 1.4% increase over May's figure. Although this is down from the same month one year ago, it is only a minimal decrease of 0.2% and can be considered encouraging news that perhaps the trough **in the market has now passed.**

- **July's RICS Residential Market Survey shows that both new buyer enquiries and new sales instructions was largely flat**. With new buyer enquiries indicating a balance of just +2% this shows the effect that **speculation around a rise in interest rates dampened demand.**
- The latest PRS report from **ARLA Propertymark (June), shows that the number of rental properties managed per agent increased in June to 191**. This reflects a small 3% increase over May's figure. Supply was highest in the North East with an average 225 properties per branch. **Demand meanwhile increased an average of 18%, with agents indicating an average of 71 new house-hunters per branch**, compared with 60 in May.
- The **RICS Residential Market Survey for July states that 'the most striking feature' of the report is the 'worsening trend' in new lettings instructions**. Their data indicates a net balance of -22% for new lettings instructions leading to a constrained market. The decreasing rate of new instructions is due to the **declining interest in the buy to let market and the increasing likelihood of landlords selling their properties in the wake of tax relief changes.** Despite this, the Tenant Demand indicator is positive, indicating there will very soon be a supply demand imbalance that will almost certainly result in rising rents.

**Figure 1** Economic Forecast Tables, July 2018

*Source: HM Treasury Forecasts, Independent Forecasts (July 2018), Office for Budgetary Responsibility (March 2018)*

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| Interest Rates (%) (HM Treasury Consensus) | 0.75 | 1.00 | - | - | - |
| House Price Growth (annual, %) (HM Treasury Consensus) | 2.6 | 2.7 | - | - | - |
| 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 | -10 | -9 | ↓ |
| IHS Markit / CIPS Manufacturing PMI | 54.0 | 54.3 | ↓ |
| IHS Markit / CIPS Construction PMI | 55.8 | 53.1 | ↑ |
| IHS Markit / CIPS Services PMI | 53.5 | 55.1 | ↓ |
| Quarterly GDP (Q2, latest) | 0.4% | 0.2% | ↑ |
| Visa's UK Consumer Spending Index | -0.9% | 0.7% | ↓ |
| Inflation rate | 2.5% | 2.4% | ↔ |
| Interest rate | 0.75% | 0.50% | ↑ |
| Employment rate | 75.6% | 75.7% | ↔ |
| Unemployment rate | 4.0% | 4.2% | ↓ |
| Weekly earnings growth (not incl bonuses) | 2.7% | 2.8% | ↓ |
| £ Sterling: $ USD | $1.27 | $1.31 | ↓ |
| £ Sterling: € Euro | €1.12 | €1.12 | ↔ |
| Nationwide annual house price inflation | 2.5% | 2.0% | ↑ |
| Halifax annual house price inflation | 3.3% | 1.8% | ↑ |
| Official House Price annual inflation (Land Registry) | 3.0% | 3.5% | ↓ |

**Figure 3** Official House Price data, HM Land Registry, June 2018

*Source: HM Land Registry (June 2018, latest data)*

| London | Average Price | Monthly Change (%) | Annual Change (%) |
|---|---|---|---|
| Greater London | £476,752 | -0.6% | -0.7% |
| Prime Central London | £1,055,318 | -7.7% | -13.1% |
| South West London | £659,990 | -0.1% | -3.4% |

| CJ Regional Locations | Average Price | Monthly Change (%) | Annual Change (%) |
|---|---|---|---|
| Northampton | £213,288 | -0.2% | 6.2% |
| Leeds | £181,373 | 1.2% | 5.2% |
| Bath and North East Somerset | £335,481 | -2.0% | 4.4% |
| Wiltshire | £277,813 | 1.2% | 4.1% |
| Suffolk | £241,982 | 1.1% | 4.0% |
| Harrogate | £284,657 | 1.0% | 2.9% |
| Cambridgeshire | £292,963 | -0.3% | 2.0% |
| Babergh (for Long Melford) | £282,030 | 0.2% | 2.0% |
| Oxfordshire | £354,903 | -0.4% | 1.4% |
| Cambridge | £440,126 | -1.3% | -0.1% |
| West Berkshire | £346,455 | -0.2% | -0.6% |
| York | £247,644 | 1.0% | -0.6% |
| Oxford | £402,020 | -1.8% | -2.2% |
| Winchester | £407,567 | -0.8% | -2.9% |

| UK Regions | Average Price | Monthly change (%) | Annual change (%) |
|---|---|---|---|
| West Midlands | £180,528 | 1.2% | 6.9% |
| Wales | £156,886 | 1.7% | 4.3% |
| East Midlands | £187,553 | -0.5% | 4.1% |
| East of England | £292,632 | 1.0% | 3.3% |
| Yorkshire and The Humber | £160,727 | 0.9% | 3.2% |
| South West | £252,558 | -0.5% | 3.1% |
| North West | £159,801 | 0.5% | 3.1% |
| **United Kingdom** | **£228,384** | **0.4%** | **3.0%** |
| **England** | **£245,076** | **0.3%** | **2.7%** |
| South East | £325,107 | 0.6% | 2.1% |
| North East | £127,271 | -1.9% | -0.6% |
| London | £476,752 | -0.6% | -0.7% |

**Figure 3** Official House Price data, HM Land Registry, June 2018

*Source: HM Land Registry (June 2018, latest data)*

*Note: Boroughs in orange indicate an Inner London borough.*

| London boroughs | Average Price | Monthly Change (%) | Annual Change (%) |
|---|---|---|---|
| Havering | £376,396 | 0.7% | 6.1% |
| Islington | £704,791 | 6.4% | 5.9% |
| Camden | £882,365 | 3.8% | 4.6% |
| Redbridge | £418,596 | 0.6% | 4.0% |
| Barking and Dagenham | £301,023 | 3.5% | 4.0% |
| Brent | £511,200 | 5.8% | 3.8% |
| Hounslow | £409,999 | 4.3% | 3.8% |
| Waltham Forest | £440,133 | 2.3% | 3.3% |
| Croydon | £383,794 | 3.5% | 2.9% |
| Kingston upon Thames | £510,931 | 2.1% | 2.4% |
| Bexley | £343,353 | 1.2% | 1.9% |
| Lambeth | £533,566 | 3.3% | 1.6% |
| Newham | £367,175 | 0.9% | 1.4% |
| Enfield | £405,990 | 1.2% | 1.1% |
| Hackney | £537,365 | 0.5% | 0.8% |
| Sutton | £380,910 | 0.2% | 0.4% |
| Hillingdon | £411,370 | -0.7% | 0.2% |
| Barnet | £530,924 | -2.1% | -0.1% |
| Greenwich | £394,567 | 0.8% | -0.2% |
| Tower Hamlets | £451,058 | -3.0% | -0.3% |
| Merton | £517,538 | 3.3% | -0.6% |
| London | £476,752 | -0.6% | -0.7% |
| Lewisham | £401,416 | -2.0% | -0.9% |
| Bromley | £438,156 | 0.2% | -1.3% |
| Ealing | £477,414 | -0.2% | -1.3% |
| Hammersmith and Fulham | £744,290 | 3.2% | -1.5% |
| Harrow | £457,581 | -0.6% | -3.4% |
| Wandsworth | £592,430 | -1.1% | -4.5% |
| Richmond upon Thames | £643,248 | -2.7% | -4.6% |
| Haringey | £527,635 | -3.6% | -5.8% |
| Southwark | £489,378 | -2.8% | -7.0% |
| City of Westminster | £956,365 | -4.2% | -12.1% |
| Kensington And Chelsea | £1,154,270 | -10.5% | -13.9% |
| City of London | £709,020 | -8.0% | -23.8% |
| | | | |
| Outer London | £431,614 | 1.1% | 1.1% |
| Inner London | £573,407 | -0.8% | -2.3% |

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

| Region | Rent (£pcm) | Monthly change (%) | Annual change (%) |
|---|---|---|---|
| Greater London | £1,615 | 1.2% | 3.3% |
| Scotland | £651 | -0.2% | 3.3% |
| West Midlands | £701 | 1.7% | 3.1% |
| North West | £712 | 2.2% | 2.0% |
| East Midlands | £631 | 1.4% | 1.8% |
| Yorkshire & Humberside | £635 | 1.0% | 1.6% |
| South East | £1,041 | 2.6% | 1.6% |
| **UK** | **£937** | **0.5%** | **1.3%** |
| North East | £525 | -0.8% | -0.2% |
| Wales | £611 | 1.3% | -0.3% |
| South West | £818 | 1.5% | -0.6% |

## 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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