

RESIDENTIAL BRIEFING NOTE

November 2018

Executive Summary

- Q3 GDP growth was a solid 0.6% on the quarter, recording the highest level of quarterly growth since Q4 2016.
- Both the consumer spending index and consumer confidence index edged down this month, while retail spending volumes declined again this month, down 0.5%;
- This month's Purchasing Managers' Indices (PMI's), shows that the construction sector rebounded slightly, but the manufacturing and services sectors fell again. Brexit uncertainty is reflected in low levels of business confidence in these areas;
- Bank Rate was held at 0.75% and inflation remains unchanged at 2.4%;
- Wage growth outperformed expectations again this month: at 3.2% this is the highest rate of growth since the financial crisis;
- Both Nationwide and Halifax house price indices showed slowing rates of growth at 1.6% and 1.5% respectively;
- Meanwhile the official house price index showed growth in September of 3.5%, a little surprising as this was up on last month's figure of 3.1%;
- The RICS price balance made a substantial fall this month, to -10, from -2 last month further indicating that slowing demand is effecting price growth;
- Rents meanwhile have risen by an average of 2.1% annually across the UK in October, according to latest HomeLet data. The same data however showed a 1.8% average monthly decline;
- Data from ARLA Propertymark indicated that the lettings market may be weakening as both demand and supply dipped this month;

Market Overview and Brexit Watch

While a 'kind of' breakthrough in Brexit occurred late on the 13th of November as the Prime Minister secured a draft Brexit agreement with the EU, there are still some major hurdles left to overcome: the PM's top ministers, the other leaders of the EU, and crucially, the UK Parliament need to agree the deal. It is looking increasingly likely that the deal will fall at the final hurdle though as there are around 30 Conservative leaders that will likely vote against it, not to mention the other parties and of course the Northern Ireland DUP. At time of publishing, full details of the proposal are not yet available so it is difficult to comment on what concessions may have been made but needless to say, it is our view that securing a full and final deal before Christmas is probably unlikely.

UK economic backdrop

- **Preliminary Q3 GDP results were encouraging, showing growth of 0.6%** during the three months to end September, reporting the **strongest quarterly growth in nearly two years**. Growth was buoyed by strong **construction activity which rose by 2.1% on the quarter, as well as household spending which showed a robust 0.5% growth**. On the other hand, the largest downside factor appears to have come from a decline in business investment of 1.2% on the quarter – almost certainly Brexit related.
- This month saw UK **consumer spending fall by an annual rate of 0.2% according to Visa's UK Consumer Spending Index** (October, latest). This follows last month's growth of 0.2% and is the first reduction for three months. The report goes on to say that **eCommerce (online sales) grew by 2.6%, while face to face (high street sales) fell by 2.0%**. There were falls recorded in clothing and footwear with only small increases in spending recorded in the food and drink and hospitality categories.
- Latest retail sales data for October shows that while the rate of decline slowed, **volume of sales was still down 0.5% over the previous month. There was a marked decline of 3% in household goods store sales**, which followed some strong growth in this sector in both of the previous two months. There was a small growth in the quantity of sales from food stores of 0.4% and department store sales also increased very slightly over last month by 0.1%. The report goes on to say that the strong **decline from clothing retailers (-1%) could be attributed to the warmer-than-usual weather**, showing that consumers were reluctant to begin their winter ranges. This again shows how sensitive and volatile the retail sales figures can be on a monthly basis.
- Once again the **GfK consumer confidence index fell, bringing October's figure to -10, down from -9 in September**. This is despite accelerating wage growth, historically low employment figures and low price inflation, suggesting that **consumers are feeling nervous about the prospect of a no-deal Brexit**. The GfK report further shows that consumer confidence in making major purchases is also waning, coming in at +4, down from +6 last month. However, this is still one point higher than the same period one year ago.
- **UK Manufacturing Purchasing Managers Index (PMI) indicated a hefty decline in October, posting a reading of 51.1 down from 53.6** last month. This is the slowest activity since July 2016 with **output growth, new orders and employment all declining for the first time since the EU referendum**. Brexit uncertainties are finally catching up with the sector and unlike last month's speculation, it is clearly impacting new work orders, particularly from the EU.
- The **Construction sector PMI (IHS Markit / CIPS) rose to 53.2 in October**, up from a six month low in September and well above market expectations of 52.0. Encouragingly, this was also **the second-highest reading in 16 months**, largely driven by strong growth in the civil engineering sub-sector. Housebuilding and commercial construction also increased over last month's figure although **business expectations in this sector fell to a six-year low, again with Brexit uncertainty as the main culprit**.
- Meanwhile the **Services sector PMI (as reported by Markit / CIPS) indicates a larger decline to 52.2 in October**, down from 53.9 in September and well below market expectations of 53.3. This was the slowest expansion in factory activity since March and reflects the economic uncertainty as well as **subdued consumer demand**. Job creation in the sector slowed while business confidence again was the weakest since July 2016 (the month following the Referendum) with **concerns over Brexit-related 'disruptions'** seemingly dampening the sector as well.
- At the latest Monetary Policy Committee (MPC) meeting held in early November, the vote was unanimously to **hold Bank Rate at 0.75%. This was not unexpected** as with current Brexit uncertainty and no deal yet reached, there was little appetite to change the current path with another rise. The **Committee also confirmed that any future increases in Bank Rate will be gradual and limited**, with the caveat that the economic outlook 'depends significantly on the nature of the EU withdrawal...the form of new trading arrangements...and the responses of households, businesses and financial markets'.
- Recent utility price rises and motor fuel increases have put upward pressure on **inflation this month, although in all it remains unchanged over last month at 2.4%**. The largest downward pressure on inflation came from declines in food and beverages, and clothing and footwear.
- Latest data from the Labour Force Survey (November release, July-September data) shows that the number of people in work and the number of unemployed people both increased slightly this month. So far this year there are 350,000 more people in work than the same time one year ago. Nevertheless the **employment rate remains unchanged at 75.5%, although the unemployment rate rose to 4.1%**, up from 4.0% last month.
- Once again the tight labour market, low unemployment and businesses who are reporting difficulties in recruiting, has resulted in strong wage

growth this month. At **3.2% (excl bonuses), this is the highest rate of growth since December 2008** (on a nominal basis, ie: excluding inflation). This month's data is above forecast and consensus expectations, and indicates the potential for strong household spending figures into the fourth quarter.

- Protracted Brexit negotiations continue to take a toll on the value of Sterling over the last month. Having reached a reasonably robust value of \$1.31 last month the pound had been sliding and reached a low of \$1.28 for most of the month. Against the Euro very little changed from last month with an average of around €1.14 for the majority of the last few weeks. Nevertheless, as soon as a potential Brexit draft agreement deal was announced, Sterling's value jumped to \$1.30 USD and €1.15 against the Euro (14 November).

**Click to see the latest market indicators at the end of the document*

Residential property market

Sales Prices and Rents

- **House price growth according to Nationwide has slowed once again, down to 1.6% annually in October**, from 2% last month. This is the slowest rate of growth since May 2013 and brings the average house price to £214,534, showing no change on a monthly basis. According to Nationwide, this is **in line with their expectations, although it does mark the first time in the last 12 months that price growth has moved outside of the 2-3% pa range.**
- **Halifax House Price Index for October also shows slowing growth, recording an annual change of 1.5%, down from 2.5% last month.** The report shows that this is the slowest rate of growth in over five years although it goes on to say that this was within their forecast of 0-3% this year.
- Meanwhile latest data from the official house price index (ONS, September) indicates **that UK house prices grew rather more than would have been suspected in September, at 3.5%** (annually). This is once again above the other indices which showed 2% and 2.5% annual growth in September and while the official house price index had recently been more in-line with the other indices **this month we once again see the divergence appear.** Average UK house prices according to the ONS are now £232,554.
- On a regional basis, the Midlands and Wales again appear to have had the strongest growth, with **West Midlands indicating 6.1% annual growth,**
- **East Midlands posting 6% and Wales at 5.8%.** On the bottom of the table are London which shows a decline again this month of 0.3%, the South East, posting growth of 1.7% and East of England at 2.0%. It is worth noting that the three regions which have posted the slowest growth are also **the three with the highest average house price in the UK showing that affordability of housing is still effecting house price growth.**
- Across the various London boroughs, aside from three outliers at the top of the table, average house prices declined by around 0.3%. There was a wide range of annual growth rates though, with Kensington and Chelsea (RBKC) posting growth of 18% compared with a decline of 7.8% in Hackney. The RBKC data however is highly volatile in light of some very expensive houses that might have exchanged in the month and skewing the data slightly. Across all of prime central London prices rose by 7.7%.
- The latest RICS **Residential Market Survey (October) indicates a headline price balance of -10%**, down significantly from last month's -2%, indicating that a lack of buyer demand may now be filtering into pricing. The report is quick to point out however that this is not even across the country and that much of the weakness comes from London and the South East and to a lesser degree East of England, the South West and the North East. Compare this to price rises which are indicated in all of the other regions.
- The September issue of **ARLA PropertyMark's Private Rented Sector** report tells us that the **number of tenants experiencing rent increases slowed to 31%** (down from 40% last month), although this is still one of the highest figures since the report began in 2015. Tenants in Wales report the most rises, with 70% indicating rental increases, compared with the North West where just 13% did.
- HomeLet's recent **Rental Index report for October indicates that rents across the UK rose by an annual rate of 2.1%** in October. However, once again on a monthly basis rents actually declined by 1.8% leaving the national average rent at £909 per calendar month (pcm), or £768 pcm excluding London. The Index reveals that rents rose in 11 of the 12 UK regions covered, with the North East posting the only decline.
- Examining the HomeLet data in further detail, **rents rose the greatest (annually) in Northern Ireland (4.5%), Scotland (4.2%), and Greater London (4%) – all of the same locations with the heaviest increases last month.** Looking at London in detail it shows that Kensington & Chelsea and Hammersmith & Fulham areas rose by 6.0%, Westminster rents grew by around 3.5%, with Wandsworth showing annual

rental growth of around 3.2%. Rents in London now average £1,556 pcm.

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

Activity

- Latest data from HMRC finds that there were **98,400 residential transactions across the UK in September this year**, no change over the previous month but **2.7% below the same month last year**. This continues to support the view that **transaction levels have been below average throughout much of this year**.
- UK Finance mortgage data for September shows a rather strong decline in the number of new **first time buyer mortgages issued in the month. At 29,400 this is 17% below the previous month's data** and 5% below the same month last year. Meanwhile **home mover mortgages also fell sharply, down 23%** over August's figure and 8% less than September 2017. This suggests that the nearer we approach the Brexit deadline of March 29 2019 without reaching a 'deal', the less confident the average consumer is feeling about big investment decisions. Lastly, **buy-to-let (BTL) mortgages also declined this month, down 13%** over August data and 19% less than the same month last year.
- Bank of England **mortgage data tells us that there were 65,269 mortgage approvals during September, down 1.3% over the previous month and 1% below the same month one year ago**. This figure remains in line with the **short-term average which has hovered between 65,000 and 69,000 approvals per month since April 2016** when the newest set of stamp duty charges came into place.
- The October issue of the RICS Residential Market Survey reports **the net balance for new buyer enquiries continues to decline, down to -14%** this month, from -12% last month. It further found that all UK regions saw a monthly decline in new instructions and that average stock levels remain at all-time lows as a result. Lastly, the report tells us that **sales were reported as either flat or negative in 11 of the 12 regions** during the month.
- The RICS report turns to the **lettings market where it finds a small improvement in tenant demand over the last three months while at the same time landlord instructions fell** for the tenth straight quarter. As a result, rents are expected to rise slightly over the next three months with respondents projecting **a little less than 2% rental growth for 2019**.
- According to **ARLA PropertyMark (September, latest issue), demand in the lettings market fell again, albeit modestly** with letting agents reporting an average of just 63 new prospective tenants, down from 64 last month. The highest number of new tenants was reported in Yorkshire and Humberside (an average of 92 new registrants) compared with Wales where just an average of 36 was reported. On the **supply side, the number of rental properties managed per branch also dropped** in September to an average of 194.

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

	2018	2019	2020	2021	2022
Official Bank Rate (%)	0.76	1.09	1.42	1.71	1.99
House Price Growth (annual, %)	2.3	2.4	2.1	2.7	2.9
CPI inflation rate (annual average, %)	2.4	2.1	2.0	2.0	2.1
Unemployment rate (%)	4.1	4.1	4.2	4.3	4.4
GDP (annual, %)	1.3(1.3)	1.5 (1.6)	1.7 (1.4)	1.8 (1.4)	1.9 (1.5)
Average earnings growth (annual, %)	2.7	3.0	2.9	3.0	3.1

Source: HM Treasury Consensus Forecasts (2018-2019 October 2018, latest) (2020-2022 August 2018, latest), Office for Budget Responsibility (OBR)

Select Market Indicators, latest versus previous data

Market Indicator	Current	Previous	Direction of Change
Q3 GDP (q/q %)	0.6%	0.4%	↑
GfK Consumer Confidence Index	-10	-9	↓
Retail sales volumes (monthly % change)	-0.5%	-0.8%	↑
IHS Markit / CIPS Manufacturing PMI	51.1	53.6	↓
IHS Markit / CIPS Construction PMI	53.2	52.1	↑
IHS Markit / CIPS Services PMI	52.2	53.9	↓
Visa UK Consumer Spending Index	-0.2%	0.2%	↓
Inflation rate	2.4%	2.4%	↔
Interest rate	0.75%	0.75%	↔
Employment rate	75.5%	75.5%	↔
Unemployment rate	4.1%	4.0%	↑
Weekly earnings growth (not incl bonuses)	3.2%	2.9%	↑
£ Sterling: \$ USD	\$1.30	\$1.31	↓
£ Sterling: € Euro	€1.15	€1.14	↑
Nationwide annual house price inflation	1.6%	2.0%	↓
Halifax annual house price inflation	1.5%	2.5%	↓
Official UK House Price inflation (annual, HM Land Registry)	3.5%	3.1%	↑

Sources: ONS (unless otherwise indicated)

Official House Price data, HM Land Registry, August 2018

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
Vale of White Horse	£362,638	4.3%	4.9%
Northamptonshire	£230,650	0.2%	4.5%
Leeds	£183,892	0.2%	4.2%
York	£252,171	1.4%	3.5%
Northampton	£214,074	0.6%	3.5%
West Berkshire	£365,774	1.4%	3.0%
Cambridgeshire	£297,449	-0.1%	2.9%
Wiltshire	£281,709	1.5%	2.8%
Suffolk	£247,602	0.6%	2.8%
Harrogate	£289,089	-0.5%	2.3%
Babergh (for Long Melford)	£285,976	0.0%	2.1%
Bath and North East Somerset	£342,003	1.8%	1.8%
Oxford	£424,231	-0.2%	1.1%
West Oxfordshire	£333,603	-1.5%	0.9%
Winchester	£421,701	-0.1%	-0.5%
Cambridge	£442,610	-0.5%	-1.2%
South Cambridge	£366,019	-3.9%	-1.8%
South Oxfordshire	£406,155	2.1%	-1.9%

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

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
West Midlands	£199,763	1.1%	6.1%
East Midlands	£194,803	1.1%	6.0%
Wales	£162,089	0.5%	5.8%
South West	£260,142	0.3%	4.3%
North East	£132,049	0.8%	3.5%
United Kingdom	£232,554	0.0%	3.5%
North West	£162,915	-0.8%	3.3%
England	£249,408	0.0%	3.0%
Yorkshire and The Humber	£162,009	-1.1%	2.6%
East of England	£294,027	-0.1%	2.0%
South East	£328,059	-0.2%	1.7%
London	£482,241	-0.4%	-0.3%

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

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£482,241	-0.4%	-0.3%
Prime Central London	£1,244,107	4.3%	7.7%
South West London	£670,608	-0.6%	-2.3%

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

Official House Price data, HM Land Registry, August 2018

	Average Price	Monthly Change (%)	Annual Change (%)
Kensington And Chelsea	£1,498,077	7.0%	18.0%
Brent	£540,419	3.7%	10.1%
City of London	£896,312	10.3%	7.1%
Redbridge	£437,658	2.8%	3.9%
Bexley	£351,052	0.9%	3.3%
Richmond upon Thames	£506,550	3.3%	3.2%
Barking and Dagenham	£299,250	0.2%	2.3%
Kingston upon Thames	£505,550	-0.3%	1.7%
Harrow	£478,816	3.8%	1.7%
Merton	£526,607	-1.1%	1.2%
Ealing	£494,459	1.3%	1.1%
Tower Hamlets	£457,422	2.3%	0.8%
Havering	£371,653	-0.3%	0.6%
Hounslow	£399,395	0.0%	0.5%
Sutton	£382,835	-1.4%	0.2%
Bromley	£443,117	0.1%	-0.2%
Enfield	£403,592	1.6%	-0.2%
Newham	£368,197	1.3%	-0.3%
London	£482,241	-0.4%	-0.3%
Hillingdon	£417,173	-0.2%	-0.5%
Barnet	£534,808	-0.6%	-0.6%
Camden	£858,738	2.5%	-0.7%
Croydon	£375,909	0.2%	-0.8%
Waltham Forest	£436,717	-1.8%	-1.7%
Islington	£656,392	-2.1%	-2.1%
Lewisham	£410,843	-0.8%	-2.9%
Lambeth	£511,178	0.1%	-3.6%
Hammersmith and Fulham	£724,155	-3.0%	-4.6%
City of Westminster	£990,138	0.4%	-4.9%
Southwark	£505,075	-0.5%	-5.0%
Haringey	£536,905	-3.4%	-5.4%
Wandsworth	£591,330	-2.1%	-5.6%
Greenwich	£383,163	-1.9%	-6.2%
Hackney	£530,839	-2.2%	-7.8%
Outer London	£435,670	0.4%	0.7%
Inner London	£579,685	-0.1%	-2.3%

Source: HM Land Registry (September 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 (%)
Northern Ireland	£653	-1.7%	4.5%
Scotland	£647	-2.4%	4.2%
Greater London	£1,619	-1.3%	4.0%
South East	£1,010	-3.2%	3.4%
South West	£811	-0.9%	2.7%
UK	£928	-1.8%	2.1%
UK excluding London	£768	-1.5%	1.7%
East Midlands	£628	-0.2%	1.6%
West Midlands	£693	-1.1%	1.5%
East of England	£908	-0.8%	0.8%
North West	£697	-1.6%	0.7%
Yorkshire & The Humber	£631	-2.0%	0.5%
Wales	£614	-1.1%	0.3%
North East	£515	-0.8%	-2.5%

Source: HomeLet Rental Index, October 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.

Residential Research

Leslie Schroeder
Head of Residential Research
020 7529 1538
leslie.schroeder@carterjonas.co.uk

020 7518 3200
One Chapel Place, London W1G 0BG

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