Carter Jonas

RESIDENTIAL BRIEFING NOTE

June 2019

Market Overview

With Theresa May resigning and a leadership contest taking place, the nuances of Brexit have taken a bit of a back seat, albeit the topic dominated the leadership discussions. Indeed what happens next on Brexit very much depends on who wins the leadership contest and with the choice narrowed down to 'Brexiteer' Boris Johnson and 'Remainer' Jeremy Hunt, Brexit concerns are unlikely to be addressed until the new leader is chosen at the end of July.

Meanwhile the effect of 'Brexit stockpiling' that many firms had rushed to complete before the initial deadline of March 29, and which had boosted the country's GDP figures during the first quarter of the year, is winding down. April's monthly GDP figure indicated contraction of 0.4% and as we discuss below, both manufacturing and the construction sectors have figures which point to contraction for the first time in over a year.

Executive Summary

- *Both retail sales volumes and consumer spending fell in May, with poor weather during the month probably having a strongly negative influence.*
- *In contrast to the above, the Consumer Confidence Index shows a slight rise during May and while the reading is still in negative territory consumers appear to be increasingly positive about their own financial situation. Wage growth, which came in at a hefty 3.4% again this month, is hopefully boosting positivity amongst the consumer.*
- *Both the Manufacturing and the Construction PMI indices fell this month, showing figures below 50 and equating to contraction not seen in either sector in well over a year. Services PMI rose slightly to 51.0 indicating a slightly stronger expansion than was forecast.*
- *An increase in full-time employment of 357,000 over the last 12 months is helping to keep employment levels at the all-time high of 75.6% while the unemployment figure remains at a 45-year low of 3.8%.*
- *Both the Nationwide and the Official House Price Indices continue to point to a sluggish housing market, indicating 0.6% and 1.4% annual growth respectively (albeit covering slightly different time periods). Once again this month Halifax figures paint a different picture indicating 5.2% annual growth. We remain sceptical on this at least until a longer trend is shown.*
- *Neither mortgage approvals data from the Bank of England nor completions data from UK Finance point to any great change in the current trajectory of the market, which is one of tepidness, but stability. The official transaction volume data from HMRC also confirms this although provisional May data is looking particularly poor.*
- *Average UK annual rental growth of 2% across the lettings market may indicate little movement but the landlord sell-off continues and supply/demand issues in this sector are beginning to show, particularly across London.*

UK economic backdrop

- **Retail sales in the month of May declined 0.5%** over April's figure and follow the 0.1% fall in April. The **largest monthly falls came from the clothing and footwear sector,** likely due to the unusually cold weather and a delay by retailers of summer sales. **Department store** sales volumes also declined this month, down 0.1% and a hefty 2.4% decline over the same three months one year ago. **This sector has seen a downward trajectory in retail sales over much of the past two years.**

- There was further downbeat news from the **Consumer Spending Index in May** (as reported by Visa, IHS Markit). As **expenditure declined 1.4% on an annual basis** this is faster than the (revised) 0.6% fall seen in April's figures and is the eighth straight month of falling expenditure. On a sectoral basis face to face **(high street) spending declined 3.6% compared with an uptick in eCommerce (online) sales of 0.7%.** This difference may be in part due to the poor weather during May but also reflects the shifting patterns of spending amongst the average consumer.

- A touch of **optimism comes from the GfK Consumer Confidence Index for May,** and while the reading is still in negative territory at -10, this is up from last month's -13. In detail, the index found that the **consumer is feeling slightly more positive about their personal financial situation** coupled with less negativity towards the general UK financial situation. **The last time the index was in positive territory was January 2016.**

- The latest reading from IHS Markit / CIPS **UK Manufacturing Purchasing Managers Index (PMI) makes for tough reading as the indicator fell to 49.4 in May,** down from 53.1 the previous month and well below market expectations of 52. This is **the first month of contraction in the sector since July 2016.** New orders fell at their fastest pace in almost three years while new export business declined at the quickest pace in nearly five years. Output growth also eased and employment fell for the second straight month. However, the forecast looks more optimistic as manufacturers expect increased demand due to Brexit delays.

- Unfortunately the **UK Construction PMI did not help offset the gloom from the manufacturing sector, as the indicator dropped to 48.6** in May, from 50.5 last month. This is the steepest contraction in the construction sector since the 'Beast from the East' caused disruption in March 2018. Clearly Brexit is still impacting on decision making as **civil engineering activity declined with clients holding back major spending decisions** in response to uncertainty. **Commercial building also fell to a 20 month low while house building growth eased.** Since July 2018 the general trajectory of this index has shown a steady decline.

- Fortunately the consumer seems to be helping where it can in the economy as the **UK Services PMI rose again this month to 51.0** up from 50.4 in April and ahead of market expectations. This was the fastest expansion in this sector in three months as new business increased for the first time since December albeit it is still fairly weak. Employment levels also grew at the strongest pace in six months while cost inflation fell to a 12-month low. **Business optimism grew to its highest level in eight months although the outlook for consumer demand remained cautious.**

- **May's inflation figure fell slightly to 2.0%** down from 2.1% last month and bang on the Bank of England's target. The **largest contributor to this month's figure was housing and household services, with the continued increase in gas and electricity** prices playing a large role in this. Downward inflationary pressure meanwhile came from car and transportation fares as the 'Easter effect' of increased holiday prices begins to fall out of the data.

- **Wage growth continues to outperform market expectations, rising 3.4% this month (excl bonuses),** above last months' figure of 3.3% and above market consensus forecasts of 3.1%. Although generally speaking wages eased in the private sector this month, the public sector saw increasing growth, as did workers in the construction industry.

- Meanwhile there was no change in the overall labour market figures from last month with **UK employment figures remaining at 75.6% and UK unemployment figures showing no change on the 45-year low of 3.8%.** Annually, the data shows there was an increase in employment of 357,000 workers, due entirely to more people in full-time employment while unemployment dropped by 34,000 over the same time last year. **The strength of the labour market continues to be a boon to the economy** and one of the pillars propping up overall positive market conditions.

- There has been very little movement in the dollar to sterling value over the last four weeks and at time of writing the dollar remains at $1.27 USD reflecting no change over last month's reported value. Euro meanwhile has strengthened slightly moving from €1.14 at this time last month to €1.12 at time of writing (21 June).

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

Residential property market

Sales Prices and Rents

- As was widely expected, **Nationwide data for May shows a further slowing of house price growth, with 0.6% annual growth** in May, down from 0.9% in April. On a monthly basis, a 0.2% decline has been reported leading to an average UK house price of £214,946. The full report goes on to suggest that the housing market mirrors the wider economy and while underlying economic conditions like the healthy labour market and cheap borrowing costs are acting as a support, sentiment is still poor and this is stifling further growth.
- Yet again this month **the trajectory of the Halifax house price index against the others continues to widen. Halifax data shows annual house price growth of 5.2%** in the three months to May, compared with the same period last year. On a monthly basis price growth is 0.5% leading to a UK average house price of £237,837. In last month's Halifax report they cited low pricing last year which translates into higher growth now. This may well be the case since they have now shown two months of 5% or more annual growth. **We would still suggest that this data be treated with caution due to the wide variance between this and the other reputable indices.**
- Sluggish transaction volumes continue to play out in the Official House Price Index as average **UK price growth reached just 1.4% in April** (latest data), down from (a revised) 1.6% in March. On a monthly basis prices rose by an average of just 0.7% leading to an average UK house price of £228,903.
- **Annual house price growth was subdued in nearly all regions and countries of the UK during the month,** with only Wales showing a strong degree of robustness of 6.7%. This compares with the next highest growth figure of 2.9% across the East Midlands, 2.6% across the North West, Yorkshire and Humber seeing 2.5% growth and the West Midlands at 2.2% to round out the top five. **At the bottom once again was London which saw declines again of 1.2%, with the South East also posting average declines this month of 0.8%** annually.
- **The more localised data shows much more volatility than at the regional level** as houses in the Harrogate area saw annual average house price declines of around 5.6% compared with nearby York which saw robust growth of 5.8%. Similarly West Oxfordshire in the south shows average declines of 4.7% while nearby West Berkshire (+0.8%) and Northamptonshire (+0.9%) showed at least some stable and growing figures.
- **London data meanwhile is pretty well consistently poor to average across all 34 boroughs.** At 3.5% Greenwich houses posted the highest growth, followed by Hounslow and Barking and Dagenham at 2.7% each with Hackney not far behind at 2.3%. In all, **just 11 boroughs posted positive annual gains** with 23 all in negative territory. The inner London boroughs averaged declines of around 3.5% compared with a fall of 1.1% in the outer London areas and **the haemorrhaging of prices across prime central London has eased slightly this month** with averages down around 1.8% compared with the same time last year following last month's (revised) decline of 12%.
- Although the **price of newly marketed properties rose by an average of 0.3% on the month according to Rightmove's latest House Price Index (June 2019), there was no change on an annual UK-wide basis.** The report goes on to say that there is a distinct north south divide as areas in the north and the Midlands are boosting the overall average while all regions in the south have posted annual declines (South West, -0.3%, South East, -0.5%, East of England -1.7%, London -2.0%). Increased buyer demand seems to be nudging up prices in the northern areas, four of which have reached all-time high asking prices.
- This month's **RICS Residential Market Survey indicates a slightly less downbeat tone** to the housing market. The survey's price balance indicator rose to -10% from -22% (revised) last month indicating that price declines are on a decelerating path having risen from a low of -27% in February. Nevertheless, there is little change in regional sentiment although **the South East remains the most downbeat while indications from London show an easing of downward pressure on prices** (although the report is quick to point out that the indicator in London is still 'quite comfortably negative'). In virtually **all areas of the UK prices are expected to see some uplift over the next 12 months** with London the exception although even here forecasts indicate flat rather than falling pricing.
- The RICS survey touches on the lettings market briefly and (as discussed below) finds that the **supply and demand imbalance in the private rented sector has led to rent rises across all regions** and countries in the UK this month.

- HomeLet's May Rental Index report shows that **on an annual basis rents rose again in May albeit at a softer pace than in previous months. UK-wide average rental growth of 1.6%** is slightly below last month's figure of 2.0%. All but two regional locations showed rental growth again this month, with just Yorkshire & Humberside (-0.2%) and the North East (-2.1%) posting rent declines. The average rent across the UK is now £934 per calendar month (pcm) or £776 excluding London figures.
- Across Greater London the HomeLet index shows rents have grown by an average of 1.0% over the same time last year, to reach an average of £1,602 pcm. Unlike previous months however, **the variances between the London boroughs have not been as wide. Although the Westminster average is showing growth of 10.7% the next highest growth figure is just 4.4% in Wandsworth.** Chelsea, Fulham, Hammersmith and Kensington rents are said to have grown by just over 1% while on the other end of the scale Camden and City of London rents declined by an average of 6.8% in the year.

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

Activity

- UK transaction volumes from HMRC in April showed a slight decline over the previous month of around 2% while May's figure indicated an even heftier decline of around 6% over April's data. **With a provisional figure of just 89,810 transactions during the month this is the lowest monthly figure in the last three years.** Year to date figures also indicate that this year has seen transactions decline by around 2.5% over the same period last year. With May figures being so recent and a lag on reporting, we expect this will be upgraded slightly over the coming weeks and months.
- A 6% monthly increase in mortgage approvals from the Bank of England data during April may be a positive indicator but at just over **66,000 new approvals in the month this is still within the very narrow range of what we have come to expect recently.** Average monthly approvals have ranged between 64,000 and 67,000 over the last 24 months; positively though this **shows a stable market** with little volatility either way.
- Notwithstanding the above the Bank of England's own inflation report cites that **activity in the housing market is still slow with the Bank citing Brexit-related uncertainty, affordability constraints and policy changes made to the buy to let market reducing demand.**
- Meanwhile latest data from UK Finance on mortgage completions finds that **April showed virtually no change in the number of mortgages completed over March's figure.** Over the longer term though **both first time buyer mortgages and home mover mortgages were up over the same month one year ago** by 4% and 3% respectively. April's figure for buy to let (BTL) mortgages continues to show little change with 5,100 completed in the month, up from 5,000 in March but well below the average of around 10,000 BTL mortgage completions per month prior to the change in stamp duty in April 2016.
- According to RICS' latest Residential Market Survey, **May marks the first month since July 2018 where respondents indicated that new buyer enquiries were unchanged rather than declining,** indicating a steadying of market demand in over ten months. Saying that, the report also showed that agreed sales fell for the tenth straight month with expectations over the next three months showing the potential for further declines. **New instructions this month declined again although the net balance of -11% is a strong improvement over last month's** -34% reading.
- On the lettings side of the Residential Survey, **RICS found yet again that tenant demand has increased while at the same time landlord instructions declined.** The report goes on to say that the decline in landlord instructions has been a persistent theme over the last three years and is consistent with **our view that private landlords are finding the sector less and less desirable and increasingly difficult to remain in.**
- According to ARLA Propertymark's latest PRS report (April) **the number of properties available to rent remained relatively unchanged over March's figure** with an average of 202 properties per branch. This varies greatly between the regional locations however with Scotland reporting the highest number at 276 per branch while London reports less than 130 followed by the North East and South East at around 175 and 180 respectively. The report goes on to say that **the number of landlords selling their buy to let properties rose again this month, reaching the highest level in 12 months,** to an average of five per member branch.
- Demand decreased slightly in April (according to ARLA) with letting agents registering around 64 new prospective tenants, down from 67 in March. **London is clearly suffering from a supply and demand imbalance** with an average of 80 new prospective tenants compared with less than 40 in the North East.

HM Treasury **Forecasts for the UK Economy:** May 2019
(latest data)

	2019	2020	2021	2022	2023
Official Bank Rate (%)	0.87	1.29	1.45	1.64	1.86
House Price Growth (annual, %)	1.3	2.1	3.4	3.6	3.4
CPI inflation rate (annual average, %)	1.9	2.0	1.9	1.9	2.0
Unemployment rate (%)	4.0	4.0	4.2	4.2	4.2
GDP (annual, %) (OBR in brackets)	1.5	1.5	1.7	1.7	1.8
Average earnings growth (annual, %)	3.2	3.1	3.1	3.2	3.3

Sources: HM Treasury Consensus Forecasts (2019-2020 May 2019, latest) (2021-2023 May 2019, latest)

Select Market Indicators, latest versus previous data

Market Indicator	Current	Previous	Direction of change
Retail sales volumes (monthly % change)	-0.5%	-0.1%	↓
GfK Consumer Confidence Index	-10	-13	↑
Visa UK Consumer Spending Index (annual % change)	-1.4%	-0.5%	↓
IHS Markit / CIPS Manufacturing PMI	49.4	53.1	↓
IHS Markit / CIPS Construction PMI	48.6	50.5	↓
IHS Markit / CIPS Services PMI	51.0	50.4	↑
Inflation rate	2.0%	2.1%	↓
Interest rate	0.75%	0.75%	↔
Employment rate	76.1%	76.1%	↔
Unemployment rate	3.8%	3.8%	↔
Weekly earnings growth (not incl bonuses)	3.4%	3.3%	↑
£ Sterling: $ USD	$1.27	$1.27	↔
£ Sterling: € Euro	€1.12	€1.14	↓
Rightmove annual average asking price inflation (newly-marketed)	0.0%	0.1%	↓
Nationwide annual house price inflation	0.6%	0.9%	↓
Halifax annual house price inflation	5.2%	5.0%	↑
Official UK House Price inflation (annual, HM Land Registry)	1.4%	1.6%	↓
HomeLet Rental Index (annual growth, UK)	1.6%	2.0%	↓

Sources: ONS (unless otherwise indicated)

Official House Price data, HM Land Registry, April 2019

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
York	£257,913	0.8%	5.8%
Suffolk	£241,920	-0.7%	2.2%
Leeds	£179,898	-1.8%	1.3%
Northamptonshire	£228,183	-0.4%	0.9%
West Berkshire	£348,063	0.6%	0.8%
Northampton	£210,938	-0.5%	0.7%
Cambridgeshire	£292,773	1.3%	0.4%
South Oxfordshire	£402,965	1.1%	-0.2%
Babergh (for Long Melford)	£284,814	-0.3%	-0.4%
Oxford	£398,475	-2.3%	-0.4%
South Cambridgeshire	£370,870	1.5%	-1.7%
Wiltshire	£268,976	-1.0%	-1.8%
Cambridge	£431,130	1.4%	-2.1%
Vale of White Horse	£343,625	-1.9%	-2.3%
Bath and North East Somerset	£331,408	-2.3%	-2.9%
Winchester	£407,535	-0.4%	-3.6%
West Oxfordshire	£316,470	-1.5%	-4.7%
Harrogate	£271,018	-1.8%	-5.6%

Source: HM Land Registry (April 2019, latest data)

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
Wales	£163,902	2.4%	6.7%
East Midlands	£192,682	0.9%	2.9%
North West	£161,891	0.6%	2.6%
Yorkshire and The Humber	£161,443	0.3%	2.5%
West Midlands	£195,498	-0.2%	2.2%
North East	£130,888	5.0%	2.0%
United Kingdom	**£228,903**	**0.7%**	**1.4%**
South West	£253,410	-0.1%	1.3%
England	**£245,128**	**0.7%**	**1.1%**
East of England	£289,436	0.3%	0.6%
South East	£318,727	-0.1%	-0.8%
London	£471,504	2.4%	-1.2%

Source: HM Land Registry (April 2019, latest data)

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£471,504	2.4%	-1.2%
Prime Central London	£1,143,799	6.4%	-1.8%
South West London	£646,499	0.8%	-0.7%

Source: HM Land Registry (April 2019, latest data)

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Greenwich	£396,529	2.8%	3.5%
Hounslow	£398,170	0.6%	2.7%
Barking and Dagenham	£299,029	0.9%	2.7%
Hackney	£541,802	1.0%	2.3%
Merton	£502,107	-1.2%	1.6%
Hammersmith and Fulham	£718,767	1.5%	1.2%
Newham	£364,292	0.0%	1.0%
Waltham Forest	£433,158	0.2%	0.5%
Croydon	£369,986	0.9%	0.5%
Hillingdon	£410,386	0.0%	0.4%
Richmond upon Thames	£650,897	-0.1%	0.3%
City of Westminster	£998,912	6.7%	-0.5%
Lewisham	£406,614	0.6%	-0.7%
Enfield	£393,253	-0.1%	-0.9%
London	£471,504	2.4%	-1.2%
Sutton	£370,200	-0.2%	-1.5%
Bexley	£333,317	-0.5%	-1.5%
Tower Hamlets	£447,895	2.7%	-1.8%
Redbridge	£403,911	-1.3%	-2.0%
Brent	£474,540	0.8%	-2.2%
Bromley	£430,242	-1.3%	-2.4%
Kensington And Chelsea	£1,288,685	6.2%	-2.7%
Havering	£357,770	-0.1%	-3.1%
Islington	£613,718	-2.4%	-3.7%
Wandsworth	£569,833	0.9%	-4.2%
Harrow	£445,636	-0.7%	-4.2%
Ealing	£459,796	-2.6%	-4.4%
City of London	£699,794	-17.2%	-4.4%
Barnet	£516,750	0.4%	-4.6%
Kingston upon Thames	£467,894	-1.0%	-5.3%
Lambeth	£488,610	-1.4%	-5.3%
Camden	£814,375	2.0%	-6.0%
Haringey	£511,543	-4.8%	-7.9%
Southwark	£475,052	-1.3%	-8.3%
Outer London	£419,777	-0.1%	-1.1%
Inner London	£557,199	0.4%	-3.5%

Source: HM Land Registry (~~March~~ 2019, latest data)
Note: Boroughs in orange indicate an Inner London borough.

HomeLet Rental Index, May 2019

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
Northern Ireland	£665	4.1%	4.9%
East Midlands	£640	0.8%	3.7%
South West	£828	0.4%	2.9%
West Midlands	£693	-0.9%	2.2%
South East	£1,029	-0.2%	2.1%
North West	£705	0.0%	1.9%
UK excluding Greater London	**£776**	**0.1%**	**1.7%**
UK Average	**£934**	**-0.2%**	**1.6%**
Wales	£613	0.5%	1.5%
Greater London	£1,602	-0.9%	1.0%
Scotland	£653	2.2%	0.5%
East Of England	£916	0.2%	0.5%
Yorkshire & Humberside	£627	-0.2%	-0.2%
North East	£522	1.0%	-2.1%

Source: HomeLet Rental Index, May 2019 (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