Carter Jonas

RESIDENTIAL BRIEFING NOTE

November 2019

Market Overview

With the Brexit deadline extended yet again, parliament now dissolved and the election having officially kicked off, political uncertainty hangs over the UK like an unmoving cloud of fog. The next five weeks will be filled with political manifestos, promises and agendas, and all the while business and industry, consumers, and the housing market will continue their steady albeit lacklustre growth trajectories.

Executive Summary

- *As expected, the UK avoided recession with preliminary Q3 GDP figures indicating growth of 0.3%; the services and construction sector added the most positive contributions to growth;*
- *The Monetary Policy Committee voted to maintain Bank Rate at 0.75%; with two members voting to decrease rates to 0.50% any rate rise in the near future now looks very unlikely;*
- *Evidence suggests that the wider political and economic uncertainty is now very much affecting consumers as both consumer expenditure (Visa) and quantity bought (ONS) declined in October while consumer confidence (GfK) also fell;*
- *The GfK Index found deteriorating sentiment about personal finances which could be worrying for consumer spending and the economy generally, going forward;*
- *All three Purchasing Managers Indices (PMI) increased very slightly during October compared with September's poor data. Nevertheless both the Manufacturing and Construction indices remain in contraction territory (below '50') while the Services PMI is still showing one of its lowest figures in over a decade;*
- *Wages are still well above inflation with current growth reaching 3.6% meaning wages have now grown by over 3% every month for over one year. But mixed signals from the employment figures this month as employment figures increased to 76.0% while also indicating a quarterly fall of 58,000;*
- *House price growth shows no change in the current trajectory. Both Nationwide and Halifax find annual average UK growth below 1% during October while the Official House Price Index for September indicates a 1.3% rise, unchanged over August's data;*
- *Again this month the RICS survey found new instructions, new buyer enquiries and newly agreed sales levels all negative. With fewer market appraisals being undertaken across the country the near-term outlook for sales remains weak;*
- *The country's private rental market remains tight with demand showing steady increases while landlords' supply continues to fall.*

UK economic backdrop

- The first estimate of **Q3 GDP figures shows growth of 0.3%** following the volatility during the first half of the year including contraction of 0.2% during Q2. While many will be relieved the country has not entered a technical recession, the detail of growth finds that the economy grew by just 1.0% compared with the same quarter last year, the weakest figure in almost ten years. The report from ONS finds that **the service and construction sectors provided positive contributions to growth** during the quarter, with the production sector proving to be flat.
- **Retail sales meanwhile declined slightly during October, with total volumes down by 0.1% compared with the previous month**. Of the sub-categories, only the quantity spent on fuel increased during the month, with non-food, non-store and food store retailing all experiencing falls. Broken down by sector, department stores showed some positive gains in the month with the quantity bought up by 2% over September, but household goods stores fell by 1.3%, while clothing and footwear stores also declined by 1.0%. Online retailing accounted for 19.2% of all retailing during October.
- **Consumer spending fell again in October, marking the thirteenth month in a row of declining spending, down 1.1%** according to Visa's UK Consumer Spending Index. On the positive side, the pace of decline has eased somewhat following September's strong contraction of 2.3%. Spending via eCommerce increased to 1.1% while Face to Face expenditure declined by 2.3%, slightly less than the previous month. On a sectoral basis, seven of the eight sectors showed expenditure declines, with **just Recreation and Culture spending having grown by +0.3%** compared with a fall of 2.7% in Household Goods.
- In a sign that political and economic uncertainty may be spreading to consumers' sentiment about their own financial situation, the GfK UK Consumer Confidence Index showed a decline of three points in the Personal Financial Situation measure this month, to +1. This has long been the one area that had been persistently strong even in the face of wider uncertainty. Overall the **Consumer Confidence Index declined two points to -14** in October with all five sub-measures falling. The GfK report goes on to say that **the deterioration in sentiment regarding personal financial affairs is worrying as strong consumer spending had been the main driver of the economy** since the Referendum in 2016.
- The IHS / CIPS Purchasing Managers Indices (PMI) for Manufacturing showed a small increase in October to 49.6, up from 48.3 last month. It is probable **that stockpiling ahead of the 31 October Brexit deadline helped raise purchasing activity within the manufacturing output balance but the overall picture is still one of contraction**. Employment in the sector also declined for the seventh consecutive month.
- The **Construction sector PMI rose slightly during October, up to 44.2** from 43.3 in September. Nevertheless this is **still hovering around a ten year low** (June 2019) with Brexit and a global trade and economic slowdown weighing on demand. House building decreased but it was civil engineering works that contracted the sharpest this month. Commercial construction also fell for the tenth consecutive month.
- Meanwhile the **Services sector PMI also rose slightly during October, to 50.0** up from 49.5 the previous month and above consensus expectations of 49.7. The figure however is **still one of the lowest in this sector in over a decade** as uncertainty surrounding Brexit continues to cause nervousness. Intake of new business fell again this month while employment also declined, albeit at a slowing pace. Businesses who responded indicated a touch of optimism would return if a resolution to Brexit could be achieved in early 2020.
- The Monetary Policy Committee **(MPC) voted by a margin of 7–2 to hold interest rates at 0.75%**. Two of the Committee members voted to decrease rates to 0.50% leading us to feel that the MPC as a whole is less convinced than ever to raise rates.
- **October's inflation figure declined to 1.5%**, down from 1.7% in September and below consensus expectations. The drop was **largely driven by a fall in energy prices, particularly electricity and natural gas while motor fuel prices also fell**. There were other downward contributions from furniture and household equipment but this month we saw rises in clothing and footwear which partially offset these falls.
- November's Labour Market report by the ONS finds that **wage growth remains robust, increasing 3.6% (July – September)**, down slightly from last month's 3.8% average increase but still well above 3% where it has been now for over a year. The report goes on to find that **all sectors saw growth of over 3% except for the manufacturing sector**. Once again public sector pay growth (3.2%) fell below that in the private sector (3.7%).
- **Estimated employment levels meanwhile rose slightly to 76.0%** in the three months to September however **there was another decrease in employment during the quarter, by 58,000**, driven mainly by a record decline for women and

part-time workers. This marks the largest quarterly drop in employment since Q1 2013. **Unemployment figures however fell to 3.8%** from 3.9% previously with 72,000 fewer unemployed people than a year earlier.

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

Residential property market

Sales Prices and Rents

- There was little change in annual house price growth during October, **according to Nationwide. Annual growth remained subdued at 0.4%**, up from 0.2% in September while the month on month rise was also modest at 0.2%. This is now the **11th month in a row where house prices have grown by less than 1%**.
- **House prices grew by 0.9% annually during October, according to Halifax's latest House Price Index**. The latest figure is down from September's 1.1% growth and on a monthly basis the index finds prices fell by 0.1%. The report highlights the Halifax view that activity levels and pricing will remain subdued while political and economic uncertainty remains across the UK.
- **House prices grew by an annual average of 1.3% in September according to the latest UK Official House Price Index**. This means there was no change over August's figure while on a monthly basis prices fell by 0.2% to reach an average of £234,370.
- Price growth across the regions continues to slow with **the gap between the highest growing areas and the contracting areas decreasing yet again**. The North West showed the largest growth this month (on an annual basis) but this only reached 2.8% followed by Wales at 2.6% and Yorkshire and the Humber at 2.2%. Compare this to the areas at the bottom of the table which saw contraction: London (-0.4%) and East of England (-0.2%). The South East this month has reversed the falls seen during August, reaching growth of 0.7%, the first time in eight months that this region has posted positive gains.
- There is a similar story across our Carter Jonas locations where house price growth is either fairly muted or declining in many areas. **Once again though neighbouring locations are showing some strong differences with South Oxfordshire at the top of our growth table where annual price growth has reached 4.5% but neighbouring West Oxfordshire is at the bottom with price contraction averaging 5.4%**. There no longer seems to be a 'north south' divide in terms of growth or contraction either, with areas in both the north and south experiencing gains and losses in equal measure.
- Little has changed in the London housing market this month either. **Greater London shows an average price fall again this month of -0.4% marking the 19th consecutive month of price declines in the capital**. The City of London topped the table posting growth of 12.1% however this area tends to have very limited activity and therefore one or two deals may skew the data quite heavily. Hounslow posted growth of 6.1% followed by Hackney (5.4%) and Newham (4.1%) while the central boroughs of Westminster (-12.3%) and Kensington & Chelsea (-11.4%) once again lingered at the bottom.
- The national indicator on house price inflation, according to the latest **RICS Residential market survey, points to virtually no change in house prices over the most recent period**. With a net balance of -5%, this has changed little since last month's -3% reading and reinforces the subdued yet stable housing market we have seen across virtually all other indicators. The survey finds that yet again London, the South East and East Anglia together with the North East all report price declines but interestingly **London's reading of -22% is the 'least negative' it has been since April 2017**. Looking ahead, respondents felt that the near term outlook is one of downward pressure due to the current political climate, but that over the longer term 12 month period prices are expected to increase.
- In the lettings market the RICS survey finds that there is a **continued increase in tenant demand while landlord instructions fell yet again**, with the report finding that the pace of decline appears to be gathering momentum. As a result, **rental growth expectations are strengthening** with every region across the country reporting that an increase in rents over the coming three months is certain.
- The latest **Rightmove House Price Index (October edition) finds that average asking prices across the UK have fallen by around 0.2%** annually, and although they have risen on a monthly basis (+0.6%) this is the lowest monthly rise at this time of year for over ten years. The **annual decline was fuelled by just three regions in the south** as London posted declines of 1.1%, the South East of -0.4% and East of England at -0.7%. All other regions of the country have seen price rises this year, including the North West where asking prices are up around 4.4%, Wales at +2.5% and Yorkshire & the Humber at +2.0%.

- **ARLA Propertymark's September report into the private rented sector found that the number of tenants experiencing rent rises fell marginally, with 58% of agents witnessing landlords raise them**, down from 64% in August. This is still relatively high compared with previous years when September 2018 saw 31% and September 2017 reported 27% of landlords raising rents.

- According to HomeLet's latest Rental Index **rents across the UK have risen by an average of 2.7% compared with the same month last year**, to reach an average of £953 per calendar month (pcm), or £788pcm if London is excluded. On a monthly basis however rents have declined by around 1.1% over September. The report finds that rents increased in all 12 regions with the North East showing the strongest growth of 4.5% followed by the North West at 4.3% and Scotland at 4.2%. Slowest growth was found in the South East which saw 1.0% increase over the same time last year while London reports an average increase of 2.8%.

- **Across London HomeLet finds that rents rose in all but three locations covered. Rents are showing their highest increase across Westminster where growth averaged over 16% annually** to reach an average of £2,608 pcm. Meanwhile in neighbouring locations of Chelsea, Fulham, Hammersmith and Kensington average rents increased by just 2.0% over the same month last year.

- Rightmove's quarterly rental report finds that **asking rents in the UK (outside London) jumped by their largest amount since 2015** to reach an average of £828 per calendar month (pcm), reflecting an annual increase of over 3%. **Inside London** growth was even greater, with an average asking rent now of £2,104 pcm, **5.6% higher than the same time last year**. The report goes on to say that available stock levels declined in every region of the UK bar Scotland and the North East which is mostly responsible for rising rents.

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

Activity

- Seasonally adjusted figures from HMRC showed another increase in residential transactions during September, to reach a total of 101,740, reflecting a 5% increase over August. September's transaction total is also 2% higher than the same month one year ago and **year to date figures are on-par with 2018 although it is the lowest year to date total since 2013**.

- There was virtually no change in **Bank of England mortgage approvals** data during September compared with the month prior with just under 66,000 approvals. This brings the **year to date data to 592,500, a 1% increase over the same period in 2018**.

- October's **RICS Residential Market Survey shows negative readings this month from new buyer enquiries, agreed sales, and new instructions**. New buyer enquiries fell for the second consecutive month, while newly agreed sales slipped (but not by as much as previous months) and new instructions declined for the fourth month in a row, and across all parts of the UK. With a net balance of -49% of participants reporting a decline in market appraisals undertaken, this suggests that the sales market will likely remain weak for some time.

- As discussed above, the lettings market shows another increase in tenant demand according to the RICS Residential Market Survey for October. Landlord instructions however fell, and at an ever increasing rate.

- Rightmove's monthly report has found that speculative seller numbers have decreased substantially with the **number of new sellers coming to the market down by 13.5%** in October, compared to the same time last year. The looming Brexit deadline has caused nervousness amongst vendors who don't have to sell. On the other hand, the report is quick to point out that **demand levels remain the same**, with the number of sales agreed being virtually unchanged on the same period a year ago. This has translated into a **greater chance of getting a sale over the line with both buyers and sellers being very serious and indeed fall-through rates are now at their lowest level since 2015**.

- **The supply of available rental stock declined slightly during September, according to ARLA's latest report**, with the number of properties managed per branch declining slightly to 194, from 197 in August. Unsurprisingly, supply was lowest in both the South East (151 per branch) and London (152 per branch) compared with the West Midlands where 271 properties are managed per branch.

- Declining levels of rental stock are fuelling rent rises and Rightmove's Q3 rental report suggests that **recent changes in legislation including the recent tax relief changes and the ban on tenant fees are discouraging landlords from expanding their portfolios**. Furthermore, their research found that **24% of landlords are planning to sell at least one property** from their current portfolio while 11% of landlords polled said they will be selling all of their rental properties.

HM Treasury **Forecasts for the UK Economy,** October 2019

(latest data)

	2019	2020	2021	2022	2023
Official Bank Rate (%)	0.76	0.82	1.02	1.42	1.66
House Price Growth (annual, %)	1.0	1.5	2.5	3.7	3.4
CPI inflation rate (annual average, %)	1.8	2.2	2.0	2.1	2.1
Unemployment rate (%)	3.9	4.2	4.3	4.3	4.3
GDP (annual, %)	1.2	1.0	1.6	1.7	1.7
Average earnings growth (annual, %)	3.6	3.3	3.1	3.3	3.3

Sources: HM Treasury Consensus Forecasts (2019–2020 October 2019, latest) (2021–2023 August 2019, latest)

Select Market Indicators, latest versus previous data

Market Indicator	Current	Previous	Direction of change
UK GDP (quarterly %)	0.3%	-0.2%	↑
Retail sales volumes (monthly % change)	-0.1%	0.0%	↓
GfK Consumer Confidence Index	-14	-12	↓
Visa UK Consumer Spending Index (annual % change)	-1.1%	-2.3%	↑
IHS Markit / CIPS Manufacturing PMI	49.6	48.3	↑
IHS Markit / CIPS Construction PMI	44.2	43.3	↑
IHS Markit / CIPS Services PMI	50.0	49.5	↑
Inflation rate	1.5%	1.7%	↓
Interest rate	0.75%	0.75%	↔
Employment rate	76.0%	75.9%	↑
Unemployment rate	3.8%	3.9%	↓
Weekly earnings growth (not incl bonuses)	3.6%	3.8%	↓
Nationwide annual house price inflation	0.4%	0.2%	↑
Halifax annual house price inflation	0.9%	1.1%	↓
Official UK House Price inflation (annual, HM Land Registry)	1.3%	1.3%	↔
Rightmove House Price Index (annual, asking price)	-0.2%	0.2%	↓
HomeLet Rental Index (annual growth, UK)	2.7%	2.5%	↑
£ Sterling: $ USD	$1.28	$1.28	↔
£ Sterling: € Euro	€1.17	€1.16	↑
Brent Crude (USD)	$62.92	$58.64	↑
Gold (USD)	$1,470.69	$1,488.15	↓
FTSE 100	7321.26	7186.19	↑
UK 5 YEAR GILT YIELD	0.51	0.51	↔

Sources: ONS (unless otherwise indicated) (final six indicators as at 14 November)

Official House Price data, HM Land Registry, September 2019

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
South Oxfordshire	£423,079	0.7%	4.5%
Cambridge	£455,854	4.0%	2.8%
York	£259,452	0.6%	2.7%
Vale of White Horse	£365,654	-0.9%	2.3%
Leeds	£187,339	0.1%	1.8%
Winchester	£438,626	5.4%	1.2%
West Berkshire	£362,759	1.3%	0.8%
Suffolk	£247,594	0.2%	0.7%
Cambridgeshire	£299,238	0.8%	0.3%
Northampton	£214,475	0.2%	-0.3%
Babergh	£283,647	-2.7%	-0.6%
South Cambridgeshire	£380,615	-1.2%	-0.7%
Wiltshire	£275,921	-0.2%	-1.0%
Bath and North East Somerset	£338,564	-0.2%	-1.1%
Northamptonshire	£228,533	0.0%	-1.4%
Harrogate	£287,011	-1.0%	-1.8%
Oxford	£418,410	2.5%	-1.8%
West Oxfordshire	£319,050	0.3%	-5.4%

Source: HM Land Registry

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
North West	£167,683	-0.3%	2.8%
Wales	£164,433	-2.8%	2.6%
Yorkshire and The Humber	£165,754	-0.1%	2.2%
North East	£132,769	0.0%	2.0%
West Midlands region	£201,273	-0.4%	1.6%
United Kingdom	**£234,370**	**-0.2%**	**1.3%**
England	**£250,677**	**-0.1%**	**1.0%**
South East	£329,197	1.0%	0.7%
South West	£260,158	0.0%	0.5%
East Midlands	£194,219	-1.2%	0.1%
East of England	£291,993	-0.4%	-0.2%
London	£474,601	-0.1%	-0.4%

Source: HM Land Registry

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£474,601	-0.1%	-0.4%
Prime Central London	£1,063,134	-2.6%	-11.8%
South West London	£656,506	-0.9%	-2.0%

Source: HM Land Registry

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London Borough	Average Price	Monthly Change (%)	Annual Change (%)
City of London	£897,910	14.2%	12.1%
Hounslow	£412,065	3.1%	6.1%
Hackney	£566,567	-0.3%	5.4%
Newham	£381,220	6.5%	4.1%
Lambeth	£515,583	-0.7%	3.9%
Lewisham	£425,474	1.8%	3.8%
Barking and Dagenham	£305,229	0.4%	3.0%
Greenwich	£401,940	1.2%	2.4%
Kingston upon Thames	£506,583	-0.4%	2.2%
Southwark	£508,698	2.2%	2.0%
Islington	£661,003	1.9%	0.1%
Wandsworth	£602,178	0.8%	0.0%
Redbridge	£426,633	-0.8%	0.0%
London	£474,601	-0.1%	-0.4%
Harrow	£458,835	0.9%	-0.7%
Bromley	£446,116	0.3%	-0.7%
Croydon	£369,161	1.7%	-0.7%
Waltham Forest	£444,319	3.7%	-0.7%
Tower Hamlets	£438,037	-0.4%	-0.8%
Ealing	£479,648	0.2%	-1.2%
Hillingdon	£405,612	0.9%	-1.3%
Merton	£515,675	-0.7%	-1.7%
Hammersmith and Fulham	£716,530	-1.6%	-1.9%
Enfield	£386,930	-2.1%	-2.0%
Havering	£364,998	-1.1%	-2.2%
Barnet	£523,068	-0.9%	-2.2%
Sutton	£372,832	0.4%	-2.4%
Haringey	£546,294	-0.2%	-2.5%
Camden	£793,557	-5.2%	-2.9%
Brent	£494,761	1.5%	-3.2%
Richmond upon Thames	£650,810	-1.8%	-3.9%
Bexley	£332,290	-2.6%	-4.0%
Kensington And Chelsea	£1,229,175	-3.4%	-11.4%
City of Westminster	£897,094	-1.5%	-12.3%

Outer London	£428,044	0.2%	-0.9%
Inner London	£573,605	0.4%	-0.5%

Source: HM Land Registry
Note: Boroughs in orange indicate an Inner London borough.

HomeLet Rental Index, October 2019

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
North East	£538	0.6%	4.5%
North West	£727	-1.6%	4.3%
Scotland	£674	-0.3%	4.2%
South West	£840	-0.7%	3.6%
Yorkshire & Humberside	£653	-0.6%	3.5%
Northern Ireland	£672	-0.1%	2.9%
Greater London	£1,665	-1.7%	2.8%
UK Average	**£953**	**-1.4%**	**2.7%**
UK excluding Greater London	**£788**	**-1.1%**	**2.6%**
East Midlands	£642	-1.7%	2.2%
West Midlands	£706	-1.7%	1.9%
East Of England	£924	-0.3%	1.8%
Wales	£623	-1.7%	1.5%
South East	£1,020	-2.4%	1.0%

Source: HomeLet Rental Index

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 33 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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