Carter Jonas

RESIDENTIAL BRIEFING NOTE

February 2019

Market Overview and Brexit Watch

The Office for National Statistics released first estimate Q4 GDP figures this month of 0.2% growth showing a significant slowdown on the 0.6% achieved in the previous three months. Subject to revisions, GDP growth last year will therefore reach just 1.4%, the weakest rate of growth since 2012. Brexit uncertainties are now clearly evident in most parts of the UK economy, from manufacturing and services sectors to the retail industry, housing and economic growth generally. On a more optimistic note, consumers appear to be resilient or at least less pessimistic than the wider economy. With wage growth a punchy 3.4% this month and the labour market data so strong, this is one of the only areas of the economy which has so far remained buoyant in the face of a more subdued (Brexit) economic backdrop.

Executive Summary

- *Preliminary estimates for Q4 GDP show growth of just 0.2% during the quarter, down from the previous quarter's more robust figure of 0.6%. Brexit uncertainty is starting to pinch across many sectors;*
- *Although total consumer spending declined in January by 1.3%, retail sales volumes actually increased by 1.0%, a good indication that consumers took advantage of the January sales;*
- *All three monthly Purchasing Managers Indices (PMIs) declined this month over last. New business growth and volumes have declined substantially in several areas while the areas of activity that have grown are likely down to Brexit uncertainties bringing production forward rather than an indication of strengthening output or optimism;*
- *The Monetary Policy Committee voted unanimously to hold Bank Rate at 0.75%. The Committee noted that economic indicators are starting to look sluggish across the UK and globally and subsequently revised UK GDP forecasts for 2019 to 1.2%;*
- *Wage growth of 3.4% is up over last month's figure and continues to show just how tight employment conditions are.*
- *Nationwide and Halifax house price indices for January showed a muted housing market with annual growth of just 0.1% and 0.8%, respectively. Interestingly though, Rightmove analysis shows an uptick in buyer enquiries to their portal, suggesting that buyers may be trying to take advantage of the stagnant house pricing;*
- *2.5% annual price growth from the Official House Price Index is the lowest rate of growth since July 2013 and reflects a lack of activity in some very specific parts of the UK housing market right now;*
- *Affordability and Brexit uncertainty are the key factors in falling demand across most of the UK as the RICS price balance measure fell again this month to -22%. Rapidly falling measures were recorded in new enquiries, sales levels and new instructions;*
- *UK average rents continue to rise, increasing 2.5% across the UK annually. Strongest growth was recorded in the South West and London although the North East once again has posted declines, albeit declining slower than last month;*
- *Demand for rental properties has fallen again this month, with new registrants declining by around 9% across the board according to ARLA Propertymark. Supply however has risen for the first time in three months.*

UK economic backdrop

- **First estimates for Q4 GDP show a slowdown** in the pace of growth from 0.6% in the third quarter to just **0.2% in the final three months of the year.** Growth was driven by professional, scientific, admin and support services sectors while production and construction output both declined in the quarter. **Most of the slowdown will surely be put squarely on Brexit uncertainty** although a wider global activity slowdown also seems to be picking up pace and may be effecting export activity as well.

- Visa's UK **Consumer Spending Index pointed to a very weak start to 2019 with consumer spending falling 1.3% in January, the fastest reduction in nine months.** Face to face (High Street) spending was down 1.5% while eCommerce (online) declined 0.2%. This was the fourth straight month of falling expenditure, driven by sharp reductions in transport and communication spending (-4.7%) and clothing and footwear while food and drink spending was up on the month (+1.7%).

- Contrary to the consumer spending index (which measures expenditure), **retail sales volumes as recorded by the ONS actually grew in January, up 1.0% over December's sales,** and a punchy 4.2% increase year on year. The largest contribution to growth came from clothing and footwear, probably as consumers took advantage of January sales. Food stores meanwhile showed the strongest growth on a monthly basis, while online sales as a total of all retailing reached 18.8% in January.

- Consumers appear to be in a holding pattern, waiting to see what becomes of the wider political uncertainty as the **GfK consumer confidence index remains unchanged at -14 in January.** As has been the case for a while now, both 'Personal Financial Situation' indices (forward and back looking) were fairly robust and grew over December's figure, while the **'General Economic Situation over the next 12 months' index continued its slide, down to -39, 15 points below the same month one year ago.**

- Latest January data from the UK manufacturing Purchasing Managers Index (PMI) (IHS Markit / CIPS) indicates that **manufacturing was weaker than expected showing an index of 52.8,** down from 53.5 last month. This was also the second-weakest reading since July 2016, the month following the EU Referendum. The reading further indicated that where data had grown in the month (output balance), this was due to **activity and inventories being brought forward ahead of the Brexit** deadline.

- Meanwhile there was little to be positive about in the **construction sector PMI for January either. With an index of 50.6 this was down from December's figure and below market expectations of 52.4 as well.** New business growth was its lowest in eight months while job creation was the weakest figure in 30 months, with the release indicating that Brexit uncertainty has knocked client confidence in bringing new projects forward. Indeed commercial work was the weakest performing area while engineering works increased marginally and residential growth was the strongest performing sector.

- The last PMI to be released for January, **the Services sector PMI, fared no better as the index fell to 50.1 well below market expectations of 51.0.** This was the lowest reading in two and a half years with new business volumes declining for the first time in 30 months amid the political uncertainty surrounding Brexit.

- **Bank Rate was maintained at 0.75%** following the latest Monetary Policy Committee (MPC) meeting early in February. The Committee voted unanimously to maintain the rate, as well as maintaining the stock of bond purchases. The meeting minutes indicate that **UK economic growth indicators look soft so far this year,** reflecting softening activity abroad and the increasing effects from Brexit uncertainties. As a result, the Bank has revised its GDP forecasts for the year to just 1.2%, down from 1.7% previously forecast. This would be the lowest rate of growth since the recession in 2009.

- The fall in CPI **inflation to 1.8%** is a happy boost to consumer's spending power, particularly when wages have been increasing at above 3% over the last several months. This is the **lowest rate of inflation in over two years.** As this is now below the MPC inflation target of 2% and given the other poor economic indicators lately we don't believe the MPC will raise rates anytime soon. The largest downward contributors to inflation came from falls in the price of electricity, gas and other fuels.

- Employment figures for the three months October to December still show **little slack in the labour market. At 75.8% employment** this is unchanged over last month but up over the same period in 2017 representing an estimated 444,000 more people in work. Meanwhile the unemployment rate remains unchanged over last month's figure of 4.0%, still the lowest figure since February 1975.

- **Wages this month have increased yet again, indicating 3.4% growth** (both including and excluding bonuses), compared with one year earlier. These estimates show that average weekly earnings in real terms (adjusted for inflation) increased by 1.2%-1.3% (excl and incl bonuses). These hefty figures mean that **consumers and households are well placed to start spending when the fog of Brexit finally lifts** and optimism ramps up.

- **Little change in the value of Sterling this month,** despite deepening concern as we approach the Brexit deadline of 29 March. At $1.29 USD, this represents no change against the dollar over last month, while against the euro the pound has risen slightly to €1.14 compared with €1.13 four weeks ago.

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

Residential property market

Sales Prices and Rents

- **Nationwide's** latest January house price inflation index shows nearly no change **with annual growth of just 0.1%,** down from 0.5% in December. Average house prices in the UK are now around £211,966, and reflects a modest increase of 0.3% month-on-month. Nationwide goes on to say that the **uncertain political economic conditions are causing a drag on buyer confidence,** particularly given how strong the employment and labour data are currently.
- Unsurprisingly, sluggish house price growth was the narrative from **Halifax's latest index report with annual inflation of 0.8% in the three months to January** recorded, down from 1.3% in December. On a monthly basis, house prices decreased by 2.9% in January, largely offsetting the 2.5% rise in December and leading to an average UK house price of £223,691.
- As with the other house price indicators, the Official House Price Index from the ONS confirms the slowing pace of house price growth continues. At **2.5% house price inflation in the 12 months to December 2018 (latest data), this is the lowest rate of growth across the UK since July 2013.** Average prices are now £230,776 and reflect a monthly increase of 0.2%.
- On a regional basis, **the middle of the UK once again comes out on top with Wales and the West Midlands posting 5.2% annual growth each,** followed by East Midlands and Yorkshire & the Humber at 4.2% each. London and the North East lagged at the bottom as the only two regions posting annual declines for 2018 at -0.6% and -1.0%, respectively.
- Price growth disparity across our Carter Jonas regional locations is evident again this month with variations between **-1.4% annual price falls in West Oxfordshire, -0.7% in Winchester to +4.6% growth in York and +3.8% in Northamptonshire.** Meanwhile the overall average annual price declines of 0.6% in London is variable across the individual boroughs although with the strongest growth of 4.7% in Southwark followed by 3.5% in Barking & Dagenham, 23 of the 34 boroughs posted less than 1% annual growth all the way to 8% price declines in Tower Hamlets. A fall of 3.5% across Prime Central London over the last year is consistent with the lack of activity and sales transactions that the area has witnessed in 2018. Meanwhile the outer London boroughs posted an average 'no price change' over the course of the last 12 months.
- A **muted rise in the price of property coming to the market** is the most significant data to come out of the latest Rightmove report (January). Showing both a monthly and annual increase of just 0.4%, this is the lowest monthly January rise since 2012. The data in more detail shows that **three of the eleven regions covered actually show price declines this month,** with London properties averaging a fall of 1.5% in new seller asking prices.
- The headline price indicator from the latest RICS Residential Market Survey (January) also shows further softening in the market, for the fourth consecutive month. **The net price balance fell to -22%, from -19% previously with London and the South East continuing to display the weakest readings,** followed by the Eastern region and the South West. All of these areas have displayed some of the strongest price growth over the last six years meaning that **affordability is continuing to dampen demand** in these specific regions.
- Showing that December may not be the time to raise rents, the number of tenants experiencing rent hikes in the month dropped to the lowest level since December 2017. Just **18% of tenants witnessed rent rises according to ARLA** Propertymark's latest report, down from 21% the previous month. Variations across the regions were stark though, as 45% of tenants in the North East reported rent rises, compared with just **7% in London.**

- The **declining availability of rental properties in London** (discussed below) does seem to be **putting pressure on rents** as average asking rents have now risen to £2,034 per calendar month (pcm) at the end of 2018, according to Rightmove. This surpasses the previous peak from three years ago and reflects an annual increase of over 5%. Average rents across the rest of the UK (excluding Greater London) are now £798 pcm, an increase of 2.7% annually.

- **Meanwhile according to HomeLet's latest Rental Index (January 2019) rents have risen nationally, in every region bar the North East** this month, although rises were largely in line with inflation. Rents are **up 2.5%** compared with the same month one year ago, or 2.0% when London is excluded. Variances exist across the regions with the strongest growth coming from the South West (5.1%), London (3.7%) and the North West (2.9%).

- **The Index shows that in detail, across London, rents have risen in 17 of the 21 areas** covered by the index, over the last 12 months. **Westminster has posted the strongest growth at 9.7%** to reach an average of £2,356 pcm, while Chelsea, Fulham, Hammersmith & Kensington also show robust growth of 8.5% annually, and 8.2% across Wandsworth. Average rents in London are now £1,588 pcm.

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

Activity

- December's transactions as reported by HMRC show very little change over the previous month with 102,330 transactions, down 0.1% over November's (revised) figure. As predicted, **full year data for 2018 indicates 1.192 million transactions, down 2.5% over 2017**'s figure and in line with wider sentiment that activity levels have fallen marginally through the year.

- Mortgage trends data from UK Finance tells us that the number of **first time buyers is at its highest level since 2006,** with a total of 370,000 new first time buyer mortgages completed in 2018. On a monthly basis (December, latest data), total house purchase mortgages reached 66,000 (not seasonally adjusted), down 15% over November's data but in line with the same month one year ago when 66,400 mortgages were completed, indicating the fall is probably seasonal. Meanwhile buy-to-let (BTL) mortgages continue to decline as a total of 66,000 BTL mortgages are estimated to have completed in 2018, the lowest annual figure since 2011.

- December's mortgage data from Bank of England shows the continued fall in activity as mortgage approvals declined again, albeit just 0.2% below November's figure. And although the monthly figures are a solid 3.7% over the same month last year, last December's figures were particularly low following the November 2017 interest rate hike. **Full year data now shows that 2018 mortgage approvals are 2% below the previous year** and 1% below the five year annual average.

- Concerns over the impact of **Brexit are still causing caution in the housing market,** according to the RICS Residential Market Survey (January, latest). The **survey results show enquiries, sales and new instructions are all falling.** New properties being listed on the market shows a net balance of -25%, the lowest since July 2016 while new buyer enquiries is now at the lowest level since 2008. Sales expectations in the coming three months also fell further, coming in at -32% with eleven of the twelve regions showing negative readings.

- Meanwhile the RICS survey showed that tenant **demand in the lettings market rose** slightly in the three months to January, while new landlord instructions continued to fall. It is now nearly two years that the lettings supply indicator has remained in negative territory suggesting that **the supply of available private rented accommodation is contracting** across the UK.

- **Home buyers appear to be aiming to take advantage of the slowing pace of house price growth as buyer activity increases.** According to Rightmove's latest report they show that buyer visits to the Rightmove platform were up 5% in the first two weeks of the year compared with the same period a year ago. Conversely though seller numbers are stagnating as the number of properties coming to the market is down 2.1% compared with the same period one year ago.

- Rightmove's latest Rental Tracker report (Q4 2018) finds that **the supply of rental properties across the UK may be falling, with around 10% fewer rental properties** marketed as available compared to the same time in 2017. The report goes on to say that in London the decrease in availability was particularly stark, with a decline of almost a quarter compared with Q4 2017.

- Conversely however, **the average number of rental properties managed per agent across the UK rose in December,** according to ARLA Propertymark. The UK average moved up to 193 per branch, from 183 the previous month. Supply was highest across the

East Midlands but lowest in London. According to the report the average number of landlords selling their buy-to-let property remained at four per branch in December, although the figure was highest **in London where an average of six per branch was reported.**

- Meanwhile **demand for rental properties declined by 9%** to an average of just 50 new prospective tenants per branch being registered (ARLA Propertymark, December 2018). As mentioned last month, this is likely to be a seasonal lull however as we discuss below, the **modest decline in the rate of private renting** could be a feature we begin to see over the near-term and we will monitor this over the coming months.

Other News

The English Housing Survey

- The 2017/18 English Housing Survey has recently been released. The most striking feature of this year's survey has been the rise in owner occupation levels at the same time as a decline in private renting. Showing an increase of 340,000 new owner occupiers through the year, this is the first time in over 15 years that the rate of owner occupation has increased. This rise has been equally offset by a marginal fall in the rate of private renting. Showing a decrease of around 162,000, this is the first time in over 20 years that the rate of private renting has fallen in England. Importantly, the authors (MHCLG) note that there can be a high margin of error in the statistics and therefore the data may not be as stastically significant as it appears. Nevertheless, with the associated fall in the rates of private renting and the struggling buy-to-let sector, we believe it is certainly something to keep monitoring and it should not be entirely discounted as a potential turning point in tenure trends.

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

	2018	2019	2020	2021	2022
Official Bank Rate (%)	0.78	1.09	1.42	1.71	1.99
House Price Growth (annual, %)	2.0	2.5	2.1	2.8	3.4
CPI inflation rate (annual average, %)	2.3	1.9	2.0	2.0	2.1
Unemployment rate (%)	4.1	4.1	4.2	4.4	4.4
GDP (annual, %)	1.4(1.3)	1.4(1.6)	1.6 (1.4)	1.7 (1.4)	1.8 (1.5)
Average earnings growth (annual, %)	2.8	3.1	3.1	3.3	3.3

Sources: HM Treasury Consensus Forecasts (2018-2019 January 2019, latest) (2020-2022 November 2018, latest), Office for Budget Responsibility

Select Market Indicators, latest versus previous data

Market Indicator	Current	Previous	Direction of Change
Q4 GDP growth (Q3 growth as 'previous')	0.2%	0.6%	↓
GfK Consumer Confidence Index	-14	-14	↔
Retail sales volumes (monthly % change)	1.0%	-0.9%	↑
IHS Markit / CIPS Manufacturing PMI	52.8	54.2	↓
IHS Markit / CIPS Construction PMI	50.6	52.8	↓
IHS Markit / CIPS Services PMI	50.1	51.2	↓
Visa UK Consumer Spending Index	-1.3%	-1.0%	↓
Inflation rate	1.8%	2.1%	↓
Interest rate	0.75%	0.75%	↔
Employment rate	75.8%	75.8%	↔
Unemployment rate	4.0%	4.0%	↔
Weekly earnings growth (not incl bonuses)	3.4%	3.3%	↑
£ Sterling: $ USD	$1.29	$1.29	↔
£ Sterling: € Euro	€1.14	€1.13	↑
Nationwide annual house price inflation	0.1%	0.5%	↓
Halifax annual house price inflation	0.8%	1.3%	↓
Official UK House Price inflation (annual, HM Land Registry)	2.5%	2.8%	↓

Sources: ONS (unless otherwise indicated)

Official House Price data, HM Land Registry, December 2018

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
York	£254,412	0.5%	4.6%
Northamptonshire	£230,250	0.5%	3.8%
Leeds	£183,902	0.3%	3.6%
Wiltshire	£280,041	0.3%	3.0%
Northampton	£213,941	0.2%	2.7%
Bath and North East Somerset	£335,572	-1.6%	2.7%
Suffolk	£244,430	0.1%	2.2%
Cambridge	£438,911	0.5%	1.6%
Babergh	£281,231	0.0%	1.4%
Oxford	£411,940	1.3%	0.7%
South Oxfordshire	£407,649	-0.7%	0.5%
Vale of White Horse	£347,342	-2.7%	0.0%
Harrogate	£288,432	1.0%	-0.1%
South Cambridgeshire	£378,159	-0.5%	-0.3%
Cambridgeshire	£291,118	-1.2%	-0.4%
West Berkshire	£348,559	-2.0%	-0.5%
Winchester	£405,550	-3.9%	-0.7%
West Oxfordshire	£327,049	-2.0%	-1.4%

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

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
Wales	£161,845	0.8%	5.2%
West Midlands region	£200,388	2.0%	5.2%
East Midlands	£192,748	-0.2%	4.2%
Yorkshire and The Humber	£165,119	2.0%	4.2%
North West	£164,352	0.4%	3.5%
South West	£256,427	-0.3%	2.9%
United Kingdom	**£230,776**	**0.2%**	**2.5%**
England	**£247,886**	**0.3%**	**2.3%**
South East	£324,729	0.1%	1.2%
East of England	£289,602	-1.1%	0.2%
London	£473,822	0.1%	-0.6%
North East	£128,756	-0.4%	-1.0%

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

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£473,822	0.1%	-0.6%
Prime Central London	£1,186,573	-1.8%	-3.5%
South West London	£662,048	0.4%	-0.2%

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

Official House Price data, HM Land Registry, December 2018

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Southwark	£508,457	2.1%	4.7%
Barking and Dagenham	£303,038	0.4%	3.5%
Redbridge	£429,478	-1.0%	3.1%
Ealing	£482,400	0.5%	2.8%
Lewisham	£418,460	-0.1%	2.4%
City of London	£795,208	6.8%	2.2%
Bexley	£346,649	0.8%	1.8%
Kensington And Chelsea	£1,388,064	0.3%	1.8%
Greenwich	£392,572	0.7%	1.7%
Richmond upon Thames	£659,806	0.4%	1.5%
Enfield	£400,272	1.2%	1.3%
Havering	£369,335	-0.3%	0.9%
Kingston upon Thames	£489,277	-0.2%	0.8%
Newham	£351,071	-1.4%	0.5%
Sutton	£379,341	0.1%	0.4%
Merton	£516,887	-0.6%	0.0%
Barnet	£538,451	0.8%	0.0%
Wandsworth	£596,139	0.1%	-0.1%
Bromley	£444,616	-0.2%	-0.2%
Waltham Forest	£440,455	0.5%	-0.2%
Lambeth	£507,684	-0.9%	-0.3%
Hillingdon	£407,751	0.0%	-0.4%
London	£473,822	0.1%	-0.6%
Hackney	£552,684	1.7%	-0.8%
Hammersmith and Fulham	£730,200	0.5%	-1.7%
Camden	£829,021	1.8%	-1.8%
Haringey	£536,718	-1.1%	-2.4%
Hounslow	£392,818	-0.8%	-2.8%
Harrow	£460,791	0.4%	-2.8%
Brent	£477,811	1.4%	-3.4%
Islington	£616,363	-3.2%	-3.6%
Croydon	£358,169	-2.4%	-4.3%
Tower Hamlets	£427,245	-1.9%	-8.2%
City of Westminster	£985,082	-4.7%	-10.1%
Outer London	£427,862	0.0%	0.0%
Inner London	£571,467	-0.5%	-1.2%

Source: HM Land Registry (December 2018, latest data)
Note: Boroughs in orange indicate an Inner London borough.

HomeLet Rental Index, January 2019

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
South West	£859	3.1%	5.1%
Greater London	£1,588	-0.5%	3.7%
Northern Ireland	£644	1.9%	3.2%
North West	£703	0.7%	2.9%
West Midlands	£693	0.6%	2.8%
South East	£1,022	2.4%	2.7%
UK Average	**£932**	**1.2%**	**2.5%**
Yorkshire & Humberside	£636	1.9%	2.1%
UK excluding Greater London	**£775**	**1.6%**	**2.0%**
East Midlands	£624	-0.8%	1.1%
Wales	£606	1.8%	0.5%
Scotland	£627	0.6%	0.3%
East Of England	£909	1.6%	0.3%
North East	£534	2.7%	-0.6%

Source: HomeLet Rental Index, January 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.

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