Carter Jonas

RESIDENTIAL BRIEFING NOTE

January 2019

Market Overview and Brexit Watch

With the Brexit deal having been overwhelmingly defeated by Parliament last week, what the government intends to do next is (at time of publishing) unknown, although there are several potential scenarios: the EU could agree to some further clarifications on the Irish backstop that could help the deal get through on a second passing; there could be a new proposal, perhaps involving remaining in the customs union; or the UK could leave the EU with no deal on 29 March. With time fast running out, an extension to Article 50 negotiations is gaining traction, which would prolong the uncertainty.

As with everything Brexit though, these are not the only scenarios and there may yet be further juggling to do. What has been interesting however the lack of 'shock' in the markets is following the defeat of the deal on 15 January. Indeed the pound has actually risen and the stock markets have barely shown a blip. It's possible that the markets have been pricing in all the various Brexit-related shock scenarios for the last 30 months or that markets are perceiving an increased probability of a 'soft' Brexit.

Executive Summary

- *Recent GDP figures show latest growth of 0.3%, smaller than the previous figures although a relief in that it did not slow by as much as some surveys had suggested;*
- *Once again consumer spending and consumer confidence remained sluggish and fell in December. This was reflected in retail sales volumes which declined 0.9%, offsetting much of November's 1.3% gain associated with "Black Friday";*
- *December's Purchasing Managers Indices (PMIs) showed some positive growth in both manufacturing and the services sector. Both areas however are still showing Brexit-related effects: increased stock flows boosted figures due to Brexit preparations while the future activity index is still sliding;*
- *Bank Rate was held at 0.75% while inflation is at a near-target figure of 2.1%;*
- *The labour market shows little slack again this month with unemployment edging down to 4% while wage growth maintained its strengthening momentum at 3.3%;*
- *Although the Nationwide and Halifax indices differed slightly, the overall upshot of 0.5% and 1.3% house price growth (respectively) is that of a stuttering market;*
- *The Official House Price Index points to an average UK house price growth of 2.8% in November, with areas across middle England and Wales showing the strongest growth while London prices fell;*
- *The RICS price balance measure fell sharply to -19% in December from -11% in November although regional variations remain. New instructions and new buyer enquiries continue in negative territory as the sluggishness in the market persists;*
- *2018 saw rents rise by an average of 1.5% across the UK, according to HomeLet. Variations across the regions however are evident with London posting growth of 4.7% compared with the North East which showed a decline of 4.6% annually;*
- *Yet again this month ARLA Propertymark reports a slowdown in both supply and demand in the lettings market. This may be a normal seasonal lull but some data indicates softening even over the same period last year.*

UK economic backdrop

- **Growth in the UK economy slowed in the three months to November, growing by just 0.3%**, down from 0.4% in the three months to October, according to latest ONS figures. Manufacturing and production suffered the largest fall amid weakness in overseas demand and trade globally which has been stuttering since China and America started their 'trade war' – with the 'good'(?) news being that their floundering is not simply Brexit-related. On the other hand the construction sector grew by 3.3% and the services industries also showed strong growth of 1.8%.
- A weak picture of household spending in December as **Visa's latest consumer spending index showed an overall fall of 1.0%** (annually) in spending volumes. Lower sales were largely driven by a weak performance on the **high street (face to face) which fell by 1.6% compared with an increase of 0.5% in online spending** (e-commerce). Expenditure fell across seven of the eight sub-sectors analysed in the index, with the greatest declines coming from Transport & Communication (-4.4%) followed by Clothing & Footwear (-2.2%). This contrasts sharply with a **strong rise in the Hotels, Restaurants & Bars category which increased 7.6%**, the joint highest rate in 20 months.
- The **retail industry slumped in December** as consumers boosted spending during November (Black Friday) and undoubtedly felt nervous about spending as Brexit chatter ramped up during the month. **Volumes were down 0.9% on a monthly basis** with the main driver being a fall in non-food sales, according to latest figures from the ONS. Annually, retail sales volumes rose by 2.7% in 2018, above the 2.0% growth reached in 2017. This month **online retailing accounted for 20% of all sales**, an increase of nearly 14% over the same period last year.
- Consumer confidence slipped again in December, down one point **to -14 according to the GfK consumer confidence index. This is the lowest figure since July 2013** as expectations for the economy over the next 12 months are low. The average consumer appears downbeat over their own finances in the next 12 months however on the positive side, felt more confident about their own personal finances over the past year and were more willing to make major purchases this month over last.
- Some **good news from the UK Manufacturing Purchasing Managers Index (PMI) in December as the figure rose to 54.2**, up from (a revised) 53.6 in November. This represents the strongest upwardly trend since June amid strong business confidence. However, let us not overlook the fact that a good portion of the **increased stock inflows are due to Brexit preparations**. So it seems we can't escape Brexit in either the good or the poor figures lately.
- The IHS Markit / CIPS **Construction sector PMI fell to 52.8** in December, down from 53.4 last month and below market expectations. The rate reflects a **slower rise in commercial and housing** construction activity while work on **civil engineering projects increased the most**, and at the fastest pace in nearly 18 months.
- Although the **Services sector PMI rebounded slightly in December, up to 51.2**, from 50.4 in November, the reading still points to a meagre services sector expansion. New work orders increased only marginally and the pace of job creation slowed to its weakest in over two years. Of the forward looking measures the **future activity index fell the most**, resting at its second lowest level since March 2009, indicating that **Brexit pressure, particularly on business investment and consumer sentiment**, is still very real.
- There is no Monetary Policy Committee meeting in January and therefore no change to interest rates this month, remaining at 0.75%.
- **Inflation continued its downward trajectory, rising modestly by 2.1% in December**, down from 2.3% in November. This is **close enough to the MPC's 2% inflation target where they will feel comfortable with the current Bank Rate**, and it is also reaffirms their prediction of slowing inflation in early 2019. The largest downward contribution to the rate came from a fall in petrol prices and air fares, while upward contributions came from rises in such things as accommodation services, games, toys and mobile phone charges.
- To everyone's surprise, the labour market data continues its advance. Despite the stats being virtually so tight it seems impossible to go anywhere, the current **employment rate edged up ever so slightly again this month to 75.8%**, from 75.7% in the last reading. The **unemployment rate therefore also moved slightly, down to 4.0%** from 4.1% last month. Both figures are now the strongest since records began in 1974/75.
- Once again the extremely constricted labour market means that recruitment and retention difficulties can only be matched by **increasing wages. At 3.3% wage growth**, this marks no change over last month but is still the highest figures since before the economic crisis in 2008. Strong wage growth and little or no house price growth in certain areas means affordability levels will come down. This may stoke an increase in demand as the average consumer feels more confident in purchasing, particularly as in real terms, **wages are increasing faster than inflation** rates.

- As mentioned in our opening remarks, **Sterling hasn't been impacted by the defeat of the deal in Parliament, and is actually up** over the same time one month ago, hovering at $1.29 since 15 January. Against the Euro the story is the same as it now stands at €1.13, slightly above the €1.11 we quoted in December.

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

Residential property market

Sales Prices and Rents

- Annual house price inflation slowed rapidly in **December according to Nationwide, to 0.5% down from 1.9% in November and 2.6% at the same time in 2017**. This was not entirely unexpected however as many forward looking indicators (RICS) suggested that new buyer enquiries were slowing. This is the **weakest annual growth since February 2013 but was broadly in line with many analyst expectations** that by the end of 2018 annual house price inflation would be circa 1%.

- On a regional basis, annual house price inflation during Q4 2018 was varied, according to Nationwide. **Northern Ireland showed the largest gains at 5.8%** annual price inflation, followed by the East Midlands and Wales, both at 4.0% and Yorkshire and Humberside at 3.7%. This compares with the majority of the South East which saw either no growth **(South East, 0.0%) or price declines: London, -0.8% and Outer Metropolitan at -1.4%**. This marks the sixth consecutive quarter where London posted annual house price declines.

- **Meanwhile, data from Halifax's house price index for December also shows very modest gains** which are in line with most analysts' predictions for house price inflation in 2018. **On an annual basis the Halifax index shows 1.3%** change, up from 0.3% posted last month and indicates a 2.2% monthly rise, following November's monthly decline of 1.2%.

- The official House Price Index from the ONS found that **house prices in November across the UK rose by 2.8% annually**, up from 2.7% in October. The index is consistently slightly above those from Nationwide and Halifax and this November data is no different, although it still indicates slowing prices so the overall trends are the same. The average UK house price is now £230,630, and reflects a monthly decline of 0.1%.

- Regionally, the middle of the UK is still the top performer with **Wales and the Midlands all indicating the strongest growth of between 4.4% and 5.5%**. London (-0.7%) and the South East (1.1%) once again round out the bottom of the table indicating that those regions where housing affordability is stretched is suffering from slowing demand and falling prices.

- Across the areas where Carter Jonas has a presence, **Bath, Winchester, Leeds and York are all showing house price growth above the national average** between 3.8% and 5.8%. Meanwhile the majority of London boroughs posted price declines in November, with just ten of the 33 councils showing positive growth. Redbridge (3.7%), Southwark (1.8%) and Bexley (1.5%) were at the top of the chart. As has been the trend over the last 24 months, **pricing across Inner London has been harder hit than that across Outer London**. Indeed seven of the ten boroughs with the largest price falls this month are Inner London and include Kensington & Chelsea and Westminster.

- Latest data from Rightmove (December 2018) reports that property **prices coming to the market that month were around £10,000 lower than October 2018**, indicating the biggest fall over two consecutive months, since 2012. This **3.2% fall** is a combination of vendors trying to tempt buyers because of both the usual Christmas lull and the wider political uncertainty and affordability issues, keeping potential buyers away.

- December's RICS UK Residential Market Survey shows a continued weakness in **pricing as the price balance slipped deeper into negative territory at -19%**, down from -11% the previous month. This is the weakest level since August 2012 and the fourth month in a row with a negative reading. As has been the case for the previous months, there are some **wide variations in the balance across the regions**. Pricing in London and the South East continues to weaken, followed by East of England, the South West and the North East while all other areas report price rises.

- On the lettings side, according to **ARLA Propertymark's latest report into the Private Rented Sector, 21% of tenants experienced rent rises in November** (latest data), down slightly over the previous month and the lowest level since February 2018. However the same month on year prior showed that just 16% of **tenants experienced a rent increase. The report goes on to say that tenants in Wales were the most affected, with 55% reporting a rent rise**, compared with just 6% in the West Midlands.

- Meanwhile average rents across the UK continue to climb, although variances across the country persist according to HomeLet's **recent Rental Index for December 2018. On average, rents across the UK rose by 1.5% during 2018 to reach an average £921** per calendar month (pcm) or £763 pcm excluding London. On a monthly basis however rents rose very nominally, just 0.3% over November's figure. In 9 out of 12 regions covered, rents rose in December on an annual basis.

- The counter cyclical nature of the lettings market (as compared to the sales market) was proven across **London this year on average rents here increased 4.7% this year, the highest growth of all the regions** according to HomeLet. Looking at London in more detail, HomeLet finds that rents rose the most in 2018 in Chelsea, Fulham, Hammersmith and Kensington by nearly 17% annually, followed by Westminster, Haringey, and Islington at 12% and Hackney and Newham at 10%. Average rents in London are now £1,596 pcm.

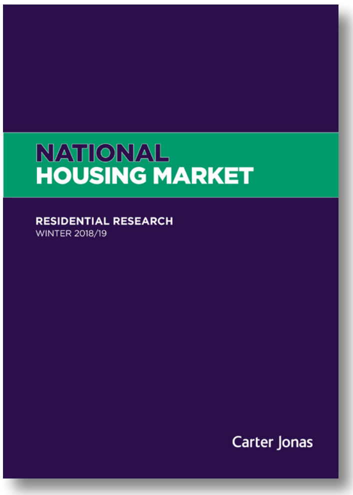
**Click to see detailed house price and rent tables*

Activity

- **HMRC transaction data** reports that residential transactions in November were broadly flat, with **100,930 transactions across the UK**. This is no change over the previous month and 0.5% below the same month one year prior. Looking ahead **we anticipate that annual transaction volumes will be down around 2.5% over 2017** and the lowest level since 2013.
- **November mortgage data from UK Finance** however indicates a slight resurgence during the month, as total house purchase mortgages reached 78,500, a 7% increase over October's figure and **1% above the same time one year ago. First time buyer mortgages increased the most**, up 4% over the same time last year and 8% above the previous month. It is only Buy-to-Let mortgages which decreased this month over last year, with figures showing a decline of 8% to 6,100 BTL mortgages issued in November compared with the same period one year ago.
- **Mortgage approvals data released by the Bank of England** indicate a weakening towards the end of 2018 as there were 63,278 approvals **in November, down 4.5% over October's** figure. On an annual basis mortgage approvals are also down, 1.7% below the same period one year prior. We continue to believe that the **tightening of regulation on mortgages approved by banks is having a constricting effect** on approvals and transaction levels, particularly across London and the South East.
- Although the RICS Residential Market Survey has shown sluggish market activity for most of the year, the last few months have seen a deterioration. **This suggests that the wider political climate and Brexit concerns may be keeping both buyers and vendors away** from the market. This month the survey shows the **new buyer enquiries balance at -17%, while new instructions also fell** meaning that 19 of the past 24 months have seen this indicator decline.
- In the lettings market, the RICS survey shows that tenant demand held steady this month, while **landlord instructions fell again, as they did in every month of 2018**. Rental growth expectations are holding at 2% across the UK for 2019.
- **Quarterly housing starts in England** show some positivity as they rose (seasonally adjusted) to 44,700, **the highest in over a decade** and 12% above the same period in 2017 according to latest Ministry of Housing, Communities and Local Government (MHCLG) data. Let us take this with a grain of salt however as information from the latest Home Builders Federation (HBF) also indicates that **new build site visits are down sharply** and builders are beginning to use some very punchy incentives to drive weakening sales.
- **Both supply and demand for lettings appear to have slowed in November**, with ARLA Propertymark reporting that the number of rental properties managed by agents fell to an average of 183, the lowest figure since April 2018 and down 5% over the same month one year prior. The report goes on to say that **demand also declined, down 23% from the previous month** as agents report an average of just 55 new prospective tenants during the period. This may be a normal seasonal lull, which will become clearer as the December data comes in next month.
- Lastly, the ARLA report continues to track **the number of buy to let landlords now selling their investments on a monthly basis. This month the average was four sales per branch**, no change from the previous month with East Midlands and East of England indicating the highest figures at eight sales per branch, on average.

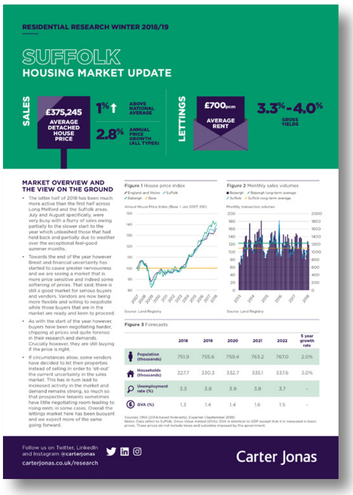
Other News

Carter Jonas Recent Publications



- The latest **National Housing Market report** has now been published. We touch on the trends in both the sales and lettings market, explore the themes which have shaped the trajectory of the market over the year, and give our view for the year ahead.

- Lastly, we have now published our **Prime Property Outlook for 2019!** In it we cover all three of our major sectors: commercial, rural and residential and give our thoughts on what we believe will shape each sector this year, and how this will effect total returns.



- Together with the National Housing Market report we have published the **individual regional reports for each of our local offices**. Here we look at the wider pricing and sales volumes over the longer term and the most recent few months, while giving our view on the ground with our local perspective.

**link: https://www.carterjonas.co.uk/property-publications*

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

	2018	2019	2020	2021	2022
Official Bank Rate (%)	0.75	1.12	1.42	1.71	1.99
House Price Growth (annual, %)	2.1	2.3	2.1	2.8	3.4
CPI inflation rate (annual average, %)	2.3	2.0	2.0	2.0	2.1
Unemployment rate (%)	4.1	4.1	4.2	4.4	4.4
GDP (annual, %)	1.3(1.3)	1.5 (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

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

Select Market Indicators, latest versus previous data

Market Indicator	Current	Previous	Direction of Change
GfK Consumer Confidence Index	-14	-13	↓
Retail sales volumes (monthly % change)	-0.9%	1.4%	↓
IHS Markit / CIPS Manufacturing PMI	54.2	53.6	↑
IHS Markit / CIPS Construction PMI	52.8	53.4	↓
IHS Markit / CIPS Services PMI	51.2	50.4	↑
Visa UK Consumer Spending Index	-1.0%	-0.7%	↓
Inflation rate	2.1%	2.3%	↓
Interest rate	0.75%	0.75%	↔
Employment rate	75.8%	75.7%	↑
Unemployment rate	4.0%	4.1%	↓
Weekly earnings growth (not incl bonuses)	3.3%	3.3%	↔
£ Sterling: $ USD	$1.29	$1.26	↑
£ Sterling: € Euro	€1.13	€1.11	↑
Nationwide annual house price inflation	0.5%	1.9%	↓
Halifax annual house price inflation	1.3%	0.3%	↑
Official UK House Price inflation (annual, HM Land Registry)	2.8%	2.7%	↑

Sources: ONS (unless otherwise indicated)

Official House Price data, HM Land Registry, November 2018

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
Bath and North East Somerset	£346,209	2.0%	5.8%
Winchester	£425,902	0.7%	3.9%
Leeds	£182,562	-0.5%	3.8%
York	£252,138	0.7%	3.8%
Vale of White Horse	£364,914	2.1%	3.4%
Northamptonshire	£227,754	-1.1%	2.9%
Suffolk	£244,149	-0.6%	1.8%
Wiltshire	£277,570	-1.1%	1.8%
West Berkshire	£357,717	0.3%	1.6%
Northampton	£210,252	-1.5%	1.6%
Cambridgeshire	£294,312	-0.8%	0.9%
South Oxfordshire	£409,169	-1.2%	0.5%
West Oxfordshire	£336,167	1.4%	0.5%
Babergh (for Long Melford)	£281,656	1.3%	0.1%
Cambridge	£433,756	-0.6%	-0.6%
South Cambridgeshire	£371,753	-2.4%	-1.0%
Harrogate	£282,619	-1.7%	-2.4%
Oxford	£406,491	-3.7%	-2.6%

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

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
Wales	£161,499	0.2%	5.5%
West Midlands	£197,387	-0.4%	4.6%
East Midlands	£192,061	0.3%	4.4%
South West	£260,177	1.1%	4.3%
North East	£132,257	1.2%	4.0%
North West	£162,717	-0.6%	3.1%
United Kingdom	**£230,630**	**-0.1%**	**2.8%**
England	**£247,430**	**-0.1%**	**2.6%**
East of England	£294,530	0.8%	2.6%
Yorkshire and The Humber	£160,155	-1.3%	2.0%
South East	£323,876	-0.1%	1.1%
London	£472,901	-1.2%	-0.7%

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

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£472,901	-1.2%	-0.7%
Prime Central London	£1,146,599	-2.0%	-3.8%
South West London	£650,491	-2.5%	-2.3%

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

Official House Price data, HM Land Registry, November 2018

	Average Price	Monthly Change (%)	Annual Change (%)
Redbridge	£434,699	1.0%	3.7%
Southwark	£502,563	2.3%	1.8%
Bexley	£341,293	-1.4%	1.5%
Hounslow	£399,317	3.1%	1.2%
Barking and Dagenham	£297,180	-0.8%	1.2%
Haringey	£550,589	0.6%	1.1%
Islington	£650,155	0.7%	0.9%
Barnet	£545,726	1.1%	0.8%
Hillingdon	£417,556	2.4%	0.5%
Lewisham	£418,211	-0.3%	0.4%
Ealing	£478,089	-1.1%	-0.3%
Havering	£363,874	-2.0%	-0.7%
Croydon	£372,981	0.2%	-0.7%
London	£472,901	-1.2%	-0.7%
Enfield	£394,355	-1.2%	-0.8%
Richmond upon Thames	£645,348	-3.21%	-1.0%
Greenwich	£391,559	-1.5%	-1.0%
Hackney	£553,128	2.0%	-1.53%
Sutton	£375,296	-2.2%	-1.6%
Waltham Forest	£433,340	-1.9%	-1.6%
Lambeth	£507,730	-0.4%	-1.6%
Bromley	£437,796	-1.5%	-1.7%
Newham	£355,346	-2.0%	-1.7%
Merton	£516,189	-2.1%	-1.8%
Kingston upon Thames	£483,673	-2.1%	-1.9%
Wandsworth	£586,888	-2.6%	-3.0%
Hammersmith and Fulham	£719,237	-1.9%	-3.0%
City of Westminster	£1,003,744	-0.8%	-3.5%
Harrow	£457,966	-1.9%	-3.7%
Tower Hamlets	£452,912	3.3%	-3.8%
Kensington And Chelsea	£1,289,453	-2.9%	-4.1%
Camden	£807,240	-1.8%	-4.6%
Brent	£460,054	-6.5%	-5.2%
City of London	£745,429	-5.2%	-5.7%

Outer London	£426,710	-1.0%	
Inner London	£573,174	-0.4%	-1.5%

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

HomeLet Rental Index, December 2018

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
Greater London	£1,596	-0.1%	4.7%
East Midlands	£629	0.6%	2.9%
South West	£833	1.7%	2.7%
West Midlands	£689	0.1%	2.1%
Northern Ireland	£632	-1.1%	1.9%
North West	£698	0.6%	1.7%
Scotland	£623	-1.9%	1.5%
UK Average	**£921**	**0.3%**	**1.5%**
South East	£998	0.9%	0.9%
UK excl. Greater London	**£763**	**0.4%**	**0.7%**
Yorkshire & Humberside	£624	0.2%	0.0%
East Of England	£895	-0.3%	-1.4%
Wales	£595	-0.7%	-1.7%
North East	£520	0.6%	-4.6%

Source: HomeLet Rental Index, December 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.

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