

# RESIDENTIAL BRIEFING NOTE

May 2019

## Market Overview

*Delaying the Brexit deadline by six months to the end of October 2019 may have given a bit of breathing room to help avoid a 'no deal' but it has also prolonged uncertainty. As a result we expect the economy to perform much as it has done over the last 12-18 months and if we see a bounce-back once a deal is reached (assuming this happens in October), this will only be reflected in 2020's economic growth figures.*

*The tight labour market persists across the UK and latest figures indicate that March was the eighth consecutive month of wage growth above 3%; while this has been advantageous to the average UK earner it puts pressure on businesses as wage demands grow, leading to wider domestic inflation. As a result the Monetary Policy Committee recently noted that such a tight labour market is one of the key areas that accelerate the pace at which interest rates rise.*

## Executive Summary

- *Brexit worries have so far not dampened the economy as much as feared as Q1 GDP figures posted strong growth of 0.5%, compared with 0.2% the previous quarter;*
- *Consumer spending fell again in April, down 0.5% over the same period last year, as expenditure on clothing and footwear decline. This could be partly explained through inflation, which although it rose to 2.1% this month, clothing and footwear inflation declined.*
- *Notwithstanding recent 'robust' GDP figures, this month's Purchasing Managers Indices (PMIs) point to an overall period of relative dormancy as both the Construction and Services PMIs hover around 50 (neither growth nor contraction) while the Manufacturing index posted an unexpectedly strong 53.1.*
- *The heat in the labour market continued with the latest data showing stable employment figure of 76.1% although the unemployment fell again to a record-breaking 3.8%. Wages grew by an average of 3.3%, down slightly over the previous month;*
- *Official house price index growth of 1.4% is consistent with softness in the wider market, overall sentiment, and the lacklustre growth also reported by Nationwide this month (0.9%). On the other hand the Halifax reports a punchy 5.0% annual house price growth which should be treated with caution.*
- *Residential mortgage approvals and transaction volumes have seen no significant change and the latest RICS market survey indicates that subdued demand levels persist in many parts of the country, putting downward pressure on pricing levels.*
- *As the landlord sell-off continues across the capital, Rightmove's latest rental trends tracker indicates that the first quarter of the year has seen significant annual rental growth in London of around 8%, compared with the country as a whole where rents rose by an average of 2.7% annually.*

## UK economic backdrop

- Encouraging news on economic performance as **preliminary Q1 GDP figures came in strongly at 0.5%**, compared with 0.2% growth the previous quarter. Reassuringly **both household consumption and business investment showed good growth in the quarter**, suggesting that Brexit worries are not currently putting as much downward pressure as could have been the case. It is probable though that business investment activity and stockpiling ahead of the original March Brexit deadline played a part in this GDP boost meaning we may see this played out in more downbeat Q2 figures.
- There was **another marginal decline in consumer spending during April, according to Visa's UK Consumer Spending Index. Expenditure fell by 0.5% annually**, slightly more than last month when a fall of 0.2% was recorded. Digging into the detail, the data shows that face to face (high street) spending increased slightly by 0.1% while eCommerce (online shopping) declined by 0.4%. Of the eight broad sectors monitored by the index, **Food & Drink spending increased the most at 4.7%** followed by Hotels, Restaurants & Bars which posted 3.7% gains, following last month's 5.2% increase. On the other hand Clothing & Footwear declined again by 4.7% in April.
- **Stability is the case across consumer confidence these past few months and April's data was no exception**, according to GfK's latest consumer confidence report. **With a reading of -13 this remains unchanged now for the third month in a row**. As has been the case for many months now the General Economic Situation index is exceptionally low at -34, ten points lower than the same time one year ago. The Personal Economic Situation Index as well as the Major Purchase index are more positive although both at -1 in April.
- **Following March's 13-month high in the Manufacturing Purchasing Managers Index (PMI), April's figure was almost certainly going to fall. Nevertheless, at 53.1 this is still slightly above market expectations**. It seems that with the Brexit deadline now pushed back to October, the rush to stockpile and pre-Brexit preparations has eased substantially. Output growth also slowed and new orders weakened however on a forecast basis business sentiment improved with expansion plans, new technology and new product launches cited as boosting confidence going forward.
- In small contrast the UK **Construction sector PMI saw a rise this month to 50.5** in April, up from the sector contraction figure of 49.7 last month. This points to **marginal expansion in the industry mostly marked by a small rise in house building**. On the other hand, commercial and civil engineering work declined, new orders fell and employment contracted for the first time in over 30 months. On the forecast front, business sentiment in the industry also fell to a six-month low.
- Amid subdued domestic consumer and business spending, the **UK Services PMI rose only very slightly this month to a reading of 50.4**, only just on the right side of expansion. This follows March's reading of 48.9 which was the first time the Services sector PMI had shown contraction since the month following the EU Referendum 31 months ago. The reading **showed export sales had declined while job creation in the sector is at its lowest point since 2012**. Input cost inflation also rose this month as fuel prices and the minimum wage both increased.
- The **Monetary Policy Committee's** May meeting and minutes indicated no change in interest rates again this month, with another **unanimous vote to hold rates at 0.75%**. Meeting minutes showed that the Committee is slightly concerned that **the tight labour market and continued wage growth will eventually lead to domestic inflationary pressures**. With inflation increasing above the 2% target in two years, they judge that a gradual and limited response of a tightening monetary policy will result.
- As was expected, **CPI inflation rose again this month to 2.1%**, up from 1.9% last month. According to the release by the ONS, clothing and footwear had the largest downward contribution to inflation this month, with prices in this category falling by 1.8% over the same time last year. This category has had a downward contribution (that is, falling costs on a 12-month basis), for eight months now. On the other hand, **housing and household services contributed most to rising inflation**, with costs in this sector rising 2.3% over last year. The **largest contributors in this sector were gas, electricity and other fuels**.
- The hot labour market continues with the **employment rate maintaining its level at 76.1% while the unemployment rate edged down to 3.8%** from 3.9% last month. The data shows an annual increase of 354,000 employed in the three months to March (latest data), with over 200,000 of these being self-employed.
- Wages meanwhile also showed hearty growth this month, with **average earnings increasing by 3.3%**, down slightly from 3.4% during the previous two months. The robust figures are still **good news for consumer sentiment although they are likely to drive inflation for businesses** as labour costs have accelerated over the last 6 months.

- **The breakdown of Brexit negotiations between Labour and Conservative leaders appears to have caused some jitters in the currency market** as after rising to a year-long high of \$1.33 USD sterling has declined once again, now sitting around \$1.27 (20 May) while against the euro it is now hovering around €1.14.

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

## Residential property market

### Sales Prices and Rents

- It is no surprise that house price growth is still subdued and **Nationwide's latest index confirms this showing just 0.9% growth in April over the same month one year ago**. On a monthly basis house prices are up 0.4% over March, leading to an average UK house price of £214,920. It is important to remember that UK-wide transaction levels and mortgage approvals have remained fairly consistent meaning that **we don't anticipate that on a national basis prices will start to fall**.
- **Halifax's house price index continues to buck the trend of other indices, this month indicating an annual growth rate of 5.0%**, up from last month's (revised) 2.6% increase. On a monthly basis prices have grown by 1.1% leading to an overall average house price of £236,619. Halifax defends the robust annual figure by saying that this is off the back of particularly low figures over the same period last year. While this may be true, **the discrepancy between Halifax figures and Nationwide (0.9%) and the Official house price index - neither of which show any upward trajectory - suggest we must treat Halifax figures with caution**.
- In line with expectations, the **Official house price index once again shows subdued house price growth, with an average UK annual rise of 1.4%** in March (latest data), up from last month's 0.6% but still indicating a rather stagnant market overall. The average UK house price is now £226,798, following a slight fall of 0.2% over February's figure.
- House price growth continues to slow across all regions although **once again those in the more 'affordable' areas of the country are posting slightly stronger growth**. Yorkshire and the Humber (3.6%), West Midlands (3.4%), Wales (3.0%) and East Midlands (2.9%) post the highest growth figures, while **the usual suspects (of late) of London (-1.9%), the South East (-0.4%) and East of England (0.0%) remain trailing at the bottom of the table**. Unusually this month the North East is also showing signs of lagging with prices in this region down 0.8% this month over the same time last year.
- **A consequence of a 'confused' and uncertain market is the house price data found in our Carter Jonas locations this month**. While Oxford itself is posting some robust annual growth of 4.0% this month, the surrounding areas of West Oxfordshire and South Oxfordshire have posted annual declines. Bath is also showing some strong growth of 4.0%, while nearby Wiltshire posts declines of 0.5%. **These figures will also be a consequence of slowing activity**, with larger or smaller deals affecting the data more substantially than in a market where there is a lot of activity.
- As the worst performing region with house price declines of 1.9% this month (annual), it is no surprise that **only ten of London's 34 authorities posted positive gains in March**. In a similar vein to what has been experienced across the country as a whole, the four worst performing areas of London are also consistently the most expensive boroughs: Kensington and Chelsea (-16.4%), Westminster (-14%), Camden (-9.3%) and Hammersmith and Fulham (-7.2%) suggesting that **affordability may be playing a big part in house purchasing even within London**. Prime Central London as a whole is showing declines of 15.4% this month, while South West London shows declines of 2.8% and the outer London boroughs showed price declines of around 0.8%.
- According to Rightmove's latest report (May 2019), the housing market has finally seen a spring uplift as the average price of newly marketed properties grew by 0.9% over April's figure. The report cites **higher buyer demand than is usual for this time of year, which has helped buoy pricing. However, on an annual basis the average price of newly marketed properties remains virtually unchanged** with an increase of just 0.1% over May 2018. In detail the report shows that prices in London, the South East and East of England all show declines over last year, with Wales (4.0%), West Midlands (3.0%), the North East (2.6%) and East Midlands (2.5%) posting the strongest annual growth.
- **Stability, but with a subdued sentiment in the housing market is the main takeaway from this month's RICS Residential Market Survey. The price balance indicator remains at -23%, showing no change over the previous month**. The regional breakdown again shows no real change in sentiment as London and the South

East continue to show strong downward price pressure with the South West not far behind. In contrast, **respondents across Scotland and Northern Ireland report price rises. Finally, on a national level respondents report that the most challenging properties are those marketed over £1million**, with the majority reporting that sales at that level are coming in below asking while those under £500,000 have generally been level with the asking price.

- **Rightmove's latest Rental Trends Tracker (Q1 2019)** shows that on a national basis average asking rents are up 2.7% annually (excluding London) with all regions bar the North East (-0.3%) indicating rental growth. The **highest growth was in London which saw average asking rents up an enormous 8.2%** over the same period last year, followed by 6.7% in Scotland, 3.8% in the North West, and 3.6% in East Midlands. In London, demand is clearly outstripping supply and the report goes on to say that **the number of available rental properties in the capital is down by 33%** compared with two years ago.
- According to HomeLet's latest rental index, **rents continue to grow at a moderate pace across the country, with UK average rents now around £936 per calendar month (pcm), up 2% annually**, or £775 pcm excluding London, and 1.8% annual growth. Once again every region bar the North East has seen rental growth with the strongest growth being the South East (3.2%) followed by West Midlands at 2.9% and East Midlands at 2.6% growth.
- The HomeLet index showed **Greater London rents increasing by an average of just 1.8%** although there were wide variations across the boroughs. **Westminster for example has posted over 13% growth while in Chelsea, Fulham, Hammersmith and Kensington rents grew by an average of 10.4%**. Wandsworth meanwhile showed an average increase in rents of just 1.9% over the same period last year. The average London rent per calendar month is now £1,617.

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

## Activity

- **Latest transaction data from HMRC (to March 2019) suggests that residential property sales have edged up ever so slightly in March**, up 1.4% over February's figure to 101,830. This is also up **by more than 6% compared with March 2018** and the first three months of this year are showing 2% more sales than the same time one year ago. Despite the wider negative sentiment within the housing market, it appears that this has not impacted on overall levels of activity.

- Bank of England's latest mortgage approvals data however shows a very small decline in monthly approvals, with March's data of 62,341 down 4.5% over February's figure and 2% below the same month one year ago. **On a quarterly basis however, there is virtually no change in the number of mortgage approvals during Q1 2019 compared with Q1 2018**, once again suggesting that **the transactional market is stable and healthy**, on a national basis.
- Echoing the stable and steady market that we have reported variously throughout this report, latest mortgage data from UK Finance (to March 2019) shows very little change in the number of new loans approved so far this year. **The first three months of 2019 has seen virtually the same number of first-time-buyers and home-mover loans approved while on the other hand the buy-to-let (BTL) sector continues its decline**. With just over 15,000 new BTL loans approved so far in 2019 this is 7% below the same time last year and a whopping 42% below the number of BTL loans approved during this three-month period over the last five years.
- In contrast to mortgage and transaction data, the latest **RICS survey indicates that agents feel activity and demand are taking the brunt of uncertainty at the moment**. Both new buyer enquiries and agreed sales have fallen according to the survey, with virtually all parts of the country reporting a slowdown. **New instructions are also down with the latest reading showing the poorest rate of new instructions since June 2016**. Less stock and fewer buyers are of course translating into the rate of sales slowing.
- The RICS survey goes on to report that new landlord instructions fell again this month marking **the longest uninterrupted sequence of dwindling new rental properties coming to the market since the series started over 20 years ago. This is undoubtedly a reflection of the sell-off of buy-to-let landlords as the sector is becoming financially unsustainable** for many. In contrast, tenant demand has grown again this month, albeit only slightly.
- In contrast to the above survey which reports sentiment, the latest ARLA Propertymark survey finds that **the supply of rental property managed per branch actually rose by 3% in March** (latest data), representing the highest figure on record. Agents report an average of 203 properties managed per branch, up 13% over the same period one year ago. This **differs across the regions though**, with the highest levels reported in Scotland (270 per branch) and the lowest in London (153 per branch). **Demand for rental properties meanwhile rose** with agents reporting an average of 67 new prospective tenants in the month, up from 65 the previous month.

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

	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
<b>Official Bank Rate (%)</b>	0.9	1.17	1.68	1.99	2.31
<b>House Price Growth (annual, %)</b>	1.8	2.1	3.4	3.5	3.3
<b>CPI inflation rate (annual average, %)</b>	1.9	2.1	2.0	2.0	2.1
<b>Unemployment rate (%)</b>	4.1	4.2	4.4	4.4	4.4
<b>GDP (annual, %) (OBR in brackets)</b>	1.3	1.5	1.7	1.7	1.8
<b>Average earnings growth (annual, %)</b>	3.3	3.2	3.3	3.2	3.3

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

**Select Market Indicators, latest versus previous data**

<b>Market Indicator</b>	<b>Current</b>	<b>Previous</b>	<b>Direction of change</b>
GfK Consumer Confidence Index	0.5%	0.2%	↑
Retail sales volumes (monthly % change)	-13	-13	↔
Visa UK Consumer Spending Index	-0.5%	-0.2%	↓
IHS Markit / CIPS Manufacturing PMI	53.1	55.1	↓
IHS Markit / CIPS Construction PMI	50.5	49.7	↑
IHS Markit / CIPS Services PMI	50.4	48.9	↑
Inflation rate	2.1%	1.9%	↑
Interest rate	0.75%	0.75%	↔
Employment rate	76.1%	76.1%	↔
Unemployment rate	3.8%	3.9%	↓
Weekly earnings growth (not incl bonuses)	3.3%	3.4%	↓
£ Sterling: \$ USD	\$1.27	\$1.30	↓
£ Sterling: € Euro	€1.14	€1.16	↓
Rightmove annual average asking price inflation (newly-marketed)	0.1%	-0.1%	↑
Nationwide annual house price inflation	0.9%	0.7%	↑
Halifax annual house price inflation	5.0%	2.6%	↑
Official UK House Price inflation (annual, HM Land Registry)	1.4%	0.6%	↑
HomeLet Rental Index (annual growth, UK)	2.0%	3.3%	↓

Sources: ONS (unless otherwise indicated)

## Official House Price data, HM Land Registry, March 2019

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
Oxford	£414,972	0.8%	4.7%
Leeds	£184,517	1.6%	4.1%
Bath and North East Somerset	£356,390	6.3%	4.0%
York	£251,507	-1.1%	4.0%
Northampton	£215,176	1.4%	3.8%
Suffolk	£242,580	-0.2%	1.8%
Northamptonshire	£229,374	-0.1%	1.7%
Vale of White Horse	£349,071	-1.4%	0.7%
Winchester	£426,859	6.3%	0.2%
Babergh	£289,493	3.2%	-0.2%
Cambridgeshire	£289,624	-0.7%	-0.3%
Cambridge	£436,255	1.1%	-0.4%
Wiltshire	£272,092	-1.5%	-0.5%
Harrogate	£278,498	-0.6%	-0.7%
South Oxfordshire	£394,567	-1.1%	-1.2%
West Berkshire	£342,370	-2.3%	-1.6%
South Cambridgeshire	£369,809	-0.1%	-3.2%
West Oxfordshire	£320,305	0.1%	-3.6%

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

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
Yorkshire and The Humber	£162,129	1.8%	3.6%
West Midlands region	£196,571	-0.5%	3.4%
Wales	£158,696	0.0%	3.0%
East Midlands	£190,171	-0.4%	2.9%
North West	£159,471	-1.7%	2.5%
<b>United Kingdom</b>	<b>£226,798</b>	<b>-0.2%</b>	<b>1.4%</b>
South West	£253,752	-0.3%	1.3%
<b>England</b>	<b>£243,128</b>	<b>-0.5%</b>	<b>1.1%</b>
East of England	£286,611	-1.1%	0.0%
South East	£318,491	-0.6%	-0.4%
North East	£123,046	-1.1%	-0.8%
London	£463,283	-0.4%	-1.9%

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

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£463,283	-0.4%	-1.9%
Prime Central London	£1,037,899	-4.0%	-15.4%
South West London	£635,171	-3.3%	-2.8%

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

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
City of London	£860,634	-3.5%	16.2%
Hackney	£563,134	4.3%	5.6%
Newham	£370,525	2.8%	5.0%
Merton	£514,903	-1.5%	4.0%
Barking and Dagenham	£300,517	1.1%	3.0%
Richmond upon Thames	£657,364	-1.0%	2.8%
Hounslow	£404,615	2.8%	2.7%
Hillingdon	£410,804	-0.6%	1.1%
Bexley	£342,993	1.3%	1.0%
Bromley	£442,388	0.5%	0.2%
Enfield	£397,193	0.3%	-0.1%
Havering	£362,698	-0.6%	-0.8%
Waltham Forest	£435,765	-0.1%	-1.3%
Islington	£642,894	0.7%	-1.4%
Croydon	£359,336	-0.8%	-1.8%
London	£463,283	-0.4%	-1.9%
Sutton	£368,520	-1.7%	-2.0%
Lewisham	£397,335	-1.4%	-2.3%
Kingston upon Thames	£482,969	1.0%	-2.3%
Lambeth	£498,431	0.4%	-2.3%
Haringey	£535,659	-2.6%	-2.5%
Ealing	£471,561	-2.3%	-2.5%
Harrow	£458,632	1.2%	-2.9%
Redbridge	£410,799	-0.9%	-3.1%
Wandsworth	£572,014	-1.7%	-3.5%
Southwark	£499,353	2.0%	-3.7%
Greenwich	£372,803	-4.1%	-3.8%
Brent	£464,522	-2.3%	-3.8%
Tower Hamlets	£428,538	1.3%	-4.0%
Barnet	£515,882	-0.9%	-4.1%
Hammersmith and Fulham	£676,133	-6.9%	-7.2%
Camden	£774,313	-9.1%	-9.3%
City of Westminster	£912,082	2.8%	-14.0%
Kensington And Chelsea	£1,163,716	-8.7%	-16.4%
Outer London	£421,980	-0.5%	-0.8%
Inner London	£554,323	-1.1%	-4.1%

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

Note: Boroughs in orange indicate an Inner London borough.

## HomeLet Rental Index, April 2019

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
South East	£1,031	-1.5%	3.2%
West Midlands	£699	-0.3%	2.9%
East Midlands	£635	0.5%	2.6%
Wales	£610	-0.3%	2.2%
South West	£825	-2.4%	2.1%
<b>UK Average</b>	<b>£936</b>	<b>-0.6%</b>	<b>2.0%</b>
North West	£705	-1.0%	1.9%
Greater London	£1,617	0.2%	1.8%
<b>UK excluding Greater London</b>	<b>£775</b>	<b>-0.9%</b>	<b>1.8%</b>
Northern Ireland	£639	0.9%	1.8%
Scotland	£639	0.9%	1.5%
East Of England	£914	-0.4%	0.8%
Yorkshire & Humberside	£628	-0.8%	0.5%
North East	£517	-1.5%	-1.1%

Source: HomeLet Rental Index, April 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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