Carter Jonas

RESIDENTIAL BRIEFING NOTE

October 2019

Market Overview

Amidst persistent uncertainty in the political and economic environment, UK businesses are looking to stronger cost control measures. This quarter's Deloitte Survey of Chief Financial Officers (CFOs) finds that Brexit and the effect of uncertainty are causing firms to focus on areas of cost reduction. The survey found that 70% of CFOs expect hiring to decrease in the months ahead and this may already be translating into a jobs growth slowdown: the UK labour market showed signs of decelerating in the three months to August, with the number of people in employment falling by 56,000.

Looking at the housing market and over the short-term it is clear that Brexit and its related political and economic uncertainty has suppressed demand. The longer-term impact of affordability in many parts of the country has also been playing a part, and this has hampered demand for some time now. Notwithstanding the small deceleration in jobs growth, we have seen strong wage growth this year and that, together with attractive mortgage rates, is helping to prop up (limited) buyer demand and maintain limited price growth. We believe this will help avoid any sustained period of falling house prices.

Executive Summary

- *Services sector output is helping to boost GDP levels with the three-month growth now at 0.3% suggesting that households are reacting well to a growth in their real incomes throughout the year;*
- *Although consumer confidence rose slightly this month according to GfK's series, nervousness to actually spend persists: Visa's consumer spending indicates the strongest rate of expenditure contraction in nearly seven years while ONS figures found the quantity of retail goods bought remained flat compared with the previous month;*
- *Both the Services sector and Construction sector Purchasing Managers Indices (PMI) declined again this month, pointing to contraction amid ongoing Brexit uncertainty. The Manufacturing PMI increased slightly over the previous month but this may again be due to stockpiling ahead of the 31 October Brexit deadline;*
- *Wage growth continued to outpace inflation again this month, however latest employment figures showed a fall in employment over the last three months, indicating that growth in the labour market may be cooling;*
- *House price inflation can best be described as limited yet steady with both Nationwide and Halifax indices showing growth slowing over the previous month, with annual increases of 0.2% and 1.1% respectively. The Official House Price Index (for August) indicates 1.3% growth, a slight improvement over July's annual figure;*
- *New Instructions, New Buyer Enquiries and Newly Agreed Sales are all down this month according to the latest RICS Residential Survey with contributors showing low stock levels and a fall in appraisals as well. Despite this the overall price balance figure remains steady;*
- *The UK rental market continues to show signs of a supply demand imbalance with new tenant registrants increasing yet again and asking rents rising, according to ARLA's latest report.*

UK economic backdrop

- **ONS figures for August find that GDP fell by 0.1%** (month-on-month) but this follows July's (revised) growth of 0.4%. This means that **the more reliable three-month figure is still 0.3%**, suggesting the economy is still in reasonably decent shape despite the background noise of Brexit uncertainty. **Encouragingly the largest contribution to growth in the month was from the services sector**; households are reacting positively to a growth in their real incomes, in line with good wage growth and low inflation throughout most of this year.

- Latest ONS figures found that in **retail sales, the quantity of goods bought in September was flat at 0.0% compared with the month prior** when goods sold fell by an unexpected 0.3%. Looking at the categories in detail and it appears that non-store retailing and fuel store sales fell by the most in the month at -1.6% and -2.0% respectively. This was slightly offset by gains in the quantity of household goods sold (+2.0%) and clothing and footwear (+1.0%) bought.

- Consumers are clearly feeling nervous to spend while wider uncertainties remain as **Visa's UK Consumer Spending Index declined sharply in September to -2.3%**. This marks the steepest contraction since October 2012 and extends the downward trend in spending to 12 months. The report finds that **spending was down in both Face to Face (high street) and eCommerce (online)** at -4.5% and -0.6% respectively. Furthermore, weak spending was found in six of eight categories with just Hotels, Restaurants & Bars, and Recreation & Culture the only two categories where expenditure rose.

- **GfK's long-running UK Consumer Confidence Index finds an improvement in September, up to -12 from -14** in August. All five measures increased over last month but households remain overall **rather downbeat about the outlook for the economy,** with current levels hovering around the same balance as back in 2011. More positively though, they found that there is still confidence over their own Personal Financial Situation both currently and going forward.

- The latest IHS Markit / CIPS **Manufacturing Purchasing Managers Index (PMI) rose to 48.3 in September**, up from August's six and a half year low of 47.4 and beating market expectations. Nevertheless the reading still indicates contraction and now marks five months below the neutral 50.0 mark. What's more, t**he slight increase in input buying levels is again part of stock building for many, ahead of the next Brexit deadline** at the end of October.

- The UK **Construction sector PMI continues its five month slide, down to 43.3** in September from 45.0 last month. The unease of a looming no deal Brexit is probably mostly to blame for the worsening of this sector and weakening demand generally. **All three sub-sectors fell again, as commercial activity was the worst performer**, while the housing sector index was the 'least worst' with a figure of 47.7. The report goes on to say that builders have reduced staff numbers now at the fastest rate since 2010.

- Once again the final **PMI indicator from the Services sector declined in September, down to 49.5** from 50.6 in August. The indicator goes on to say that **firms are reporting uncertainty around Brexit which is leading to the postponement of orders from clients**, with new export business contracting at the fastest rate since March. Employment in the sector also fell for the first time in five months and at the fastest rate since 2010. Looking ahead and the indicator reports that **business expectations are at their weakest levels since July 2016 (following the referendum) and the second-lowest since March 2009.**

- There is **no Monetary Policy Committee (MPC) meeting in October and so interest rates remain at 0.75%**. The next meeting is scheduled for early November, shortly after the 31st October Brexit deadline. Given the uncertainty over whether the deal agreed between the UK and EU achieves parliamentary approval, **it is difficult to predict whether MPC members will vote to hold or move rates either up or down.**

- **September's CPI (Consumer Prices Index / Inflation) remained stable at 1.7%** reflecting no change over August. The largest downward contribution in the month came from fuel, energy prices and second-hand cars, however these were offset by upward price movements in furniture, household appliances and recreation and culture items. Prices for clothing and footwear declined again this month, marking the 11th month out of the last 12 where prices in this sector have provided a downward contribution to inflation.

- The ONS's estimated annual **growth in wages remained stable this month at 3.8%** and marking the 12th consecutive month of above 3% wage growth. The report goes on to say that **all sectors except manufacturing (2.7%), reported annual pay growth of at least 3.0%** with the highest growth coming from the construction sector (5.7%). Public sector pay growth has fallen below that for the private sector following the boost seen earlier in the year due to pay rises for some NHS staff.

- **Employment levels in the UK are estimated at**

75.9% in the three months to August, indicating a small drop from the previous 76.1% figure. The labour market report showed a surprise fall in **employment levels, with a decline of 56,000 workers in the last three months, the first quarterly decline since October 2017** and below consensus expectations of a rise of 26,000. This may be the first indication that business confidence and cost tightening measures due to Brexit uncertainty are taking their toll.

- The **estimated unemployment rate was 3.9%** in the three months to August, down from 4.0% a year earlier but 0.1 percentage points higher than the previous three months.

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

Residential property market

Sales Prices and Rents

- **Nationwide's** seasonally adjusted measure of UK house price inflation shows that, as anticipated, the market remains broadly flat. **Year on year growth slowed to 0.2% in September**, down from 0.6% in August while month on month prices fell by 0.2%. On a regional level annual **price falls were seen across London and the South East**, although the strongest growth was still rather weak at just 2.9% in Wales, followed by 2.5% in the North West and 2.1% in the West Midlands.

- **The Halifax house price index shows annual house price growth of just 1.1%**, down from 1.8% last month and again indicating a more realistic level following their methodology change last month. On a monthly basis the index shows price declines of 0.4% leading to a UK average house price of £232,574. The Halifax report goes on to say that **this is the lowest level of growth in over six years, since April 2013.**

- Across the **UK house prices grew by 1.3% annually according to the latest UK Official House Price Index.** This marks an increase over last month's (revised) figure of 0.8% leading to an overall average house price of £234,853. The monthly index figure for the UK shows an increase of 0.8% compared with a 0.3% monthly rise during the same period a year earlier (July 2018 to August 2018).

- On a regional level house prices once again grew the most in Wales (4.5%) followed by the North East at 3.3%, the North West (3.1%) and East Midlands (2.6%). Yet again London is at **the bottom of the regional table, and house prices declined again by 1.4%, making this the 18th consecutive month of declining annual house prices** in the capital. The South East is the only other region with house price declines at -0.6%, marking the seventh month in a row of falling inflation on an annual basis in the region.

- In our Carter Jonas locations there is a nearly even split between those areas which have seen price growth and those areas where prices are declining on an annual basis. Top of the table is Vale of White Horse where prices have grown by around 5.0%, followed by neighbouring South Oxfordshire (3.8%) and York at 2.7%. Once again though there is notable disparity in neighbouring locations as at the bottom of the table are Oxford (-4.3%) and West Oxfordshire (-3.9%) followed by West Berkshire at -2.0%.

- House price growth across the London boroughs again shows a wide spectrum with Hackney topping the list at 5.4%, Lewisham at 3.9% and Barking & Dagenham at 2.7% compared with overall declines of a hefty 9.1% in Kensington and Chelsea, -8.7% in Brent, -6.9% in Westminster and a further 20 boroughs where prices fell on an annual basis.

- Headline **price balance in this month's RICS Residential market survey finds little change over August, with a new reading of -2%**, up from -4%. This points to a broadly flat trend in house price inflation across the country and is consistent with a subdued market with little movement. The report is quick to point out that **this headline figure is weighted down heavily by negative readings in London and the South East** (circa -35% and -28% respectively) with most of the other regions (bar East Midlands at around -4%) returning positive price balances. Going forward and the short-term price balance indicator (next three months) is a little more negative at -16% suggesting a modest decline while the longer-term indicator (12 months) shows an expected turnaround at +18%. **Encouragingly the long term outlook is also finally showing a more positive price trend in London and the South East.**

- The RICS report goes on to say that across the **lettings market its respondents are suggesting around 2% rental growth over the next 12 months, and a much punchier 3% annual rental growth over the next five years** due to significant supply and demand imbalances continuing.

- Latest data from **ARLA Propertymark's private rented sector report finds that once again the number of tenants experiencing rent rises increased, with 64% of agents witnessing landlords increasing them**, up slightly from 63% last month. As a comparison, 40% said the same thing in August 2018 and 35% in August 2017. Tenants in Yorkshire and the Humberside together with the West Midlands appear to be the 'most affected' with 80% of agents here reporting their tenants had a rent increase. The **increasing supply and demand imbalance in some parts of the country is probably very heavily responsible for some increase in rents**, together with the recent introduction of the Tenant Fees Act 2019.

- Latest data from **HomeLet's Rental Index also indicates continued robust rental growth with the UK average rent now rising by around 2.5% annually, although rents have declined by an average of 0.3% compared with August's figure.** Across the country annual growth was seen in all 12 regions with the North West indicating growth of 4.4% followed by the East Midlands at 3.8%, South West (3.4%) and Greater London (3.3%). Looking at London in detail and the HomeLet series finds that rents in Westminster have grown by around 11.6% annually to reach £2,497 pcm while Chelsea, Fulham and Hammersmith & Kensington posted an average of 6.3% annual increase.

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

Activity

- **HMRC monthly data shows a robust rise in UK home transactions during August**. With a total of 99,890 (seasonally adjusted) sales this is up 16% over July's figure (although this is from quite a low base as July's figures were unseasonably low) and the highest level since November 2018. Encouragingly however, year on **year transactions in August were also up by around 1%.**

- **Bank of England mortgage data however finds that approvals declined in August**, down 2% over July's figure and 1% below the same time last year. Nevertheless, **year to date approvals are now at 526,300 showing a small increase of around 1% over the same period in 2018**. Mortgage approvals are clearly holding stable, at least over the short term.

- **Mortgage completions edged up quite considerably in August** according to UK Finance's latest data. With 76,290 completions in the month this is **up 7% compared with July** but still 4% fewer than the same month one year ago. The monthly increase was seen across both first time buyer completions (+7%) and home mover completions (+8%). Encouragingly, this is the highest monthly total for first time buyer mortgages since August 2007.

- The **September RICS Residential Market Survey** suggests that activity remains subdued with both buyer demand and new supply sliding into negative territory. Contributors suggest **that Brexit is 'dissuading vendors' from listing, with the new instructions balance moving to -37%**, its weakest reading since June 2016 and leading to **estate agents having near-record low levels of stock** on their books. Respondents also report **appraisals are down** over last year meaning there is little short-term indication that things will pick up soon. **New buyer enquiries fell slightly** as well, to -15% and leading to Newly Agreed Sales sliding considerably to -27% from -11% previously.

- The lettings market, according to the latest **RICS survey, continues to show strong and increasing demand (+22%) while landlord instructions remain in decline**, as they have done now for over three years.

- On the other hand, **ARLA Propertymark's latest report into the private rented sector finds that on average, the supply of rental stock increased in the month**, with the number of properties managed per branch member at 197, up from 184 in July. **The figure rose in almost all regions**, and was highest in the East Midlands (261) and lowest in the North East (154) and London (156).

- **On the other hand rising demand continues unabated** with the number of prospective tenants increasing once again to an average of 76 in August, up from 73 in July. The highest registrations were recorded in London (99) and the East of England (~95) compared with the lowest demand in Scotland which saw an average of 41 new tenants registered per branch.

.

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

(latest data)

	2019	2020	2021	2022	2023
Official Bank Rate (%)		0.83	1.02	1.42	1.66
House Price Growth (annual, %)	0.9	1.1	2.5	3.7	3.4
CPI inflation rate (annual average, %)	1.9	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, %)	3.5	3.3	3.1	3.3	3.3

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

Select Market Indicators, latest versus previous data

Market Indicator	Current	Previous	Direction of change
Retail sales volumes (monthly % change)	0.0%	-0.3%	↑
GfK Consumer Confidence Index	-12	-14	↑
Visa UK Consumer Spending Index (annual % change)	-2.3%	-1.2%	↓
IHS Markit / CIPS Manufacturing PMI	48.3	47.4	↑
IHS Markit / CIPS Construction PMI	43.3	45.0	↓
IHS Markit / CIPS Services PMI	49.5	50.6	↓
Inflation rate	1.7%	1.7%	↔
Interest rate	0.75%	0.75%	↔
Employment rate	75.9%	76.1%	↓
Unemployment rate	3.9%	3.8%	↑
Weekly earnings growth (not incl bonuses)	3.8%	3.8%	↔
Nationwide annual house price inflation	0.2%	0.6%	↓
Halifax annual house price inflation	1.1%	1.8%	↓
Official UK House Price inflation (annual, HM Land Registry)	1.3%	0.8%	↑
HomeLet Rental Index (annual growth, UK)	2.5%	2.4%	↑
£ Sterling: $ USD	$1.28	$1.25	↑
£ Sterling: € Euro	€1.16	€1.13	↑
Brent Crude (USD)	$58.64	$62.88	↓
Gold (USD)	$1,488.15	$1,521.52	↓
FTSE 100	7186.19	7317.27	↓
UK 5 YEAR GILT YIELD	0.51%	0.40%	↑

Sources: ONS (unless otherwise indicated) (final six indicators as at 16 October)

Official House Price data, HM Land Registry, August 2019

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
Vale of White Horse	£366,715	2.2%	5.0%
Cambridgeshire	£413,496	0.6%	3.8%
York	£258,202	1.6%	2.7%
South Cambridgeshire	£188,595	1.3%	2.6%
Leeds	£388,705	1.8%	2.3%
Harrogate	£215,367	0.6%	1.3%
Suffolk	£290,428	1.3%	1.1%
Wiltshire	£292,583	1.7%	0.4%
Babergh	£246,928	0.7%	0.3%
South Oxfordshire	£230,237	0.9%	0.1%
Cambridge	£446,167	2.4%	-0.2%
Bath and North East Somerset	£296,138	-0.3%	-0.3%
West Berkshire	£423,575	2.6%	-0.3%
Northampton	£275,734	0.6%	-0.9%
Northamptonshire	£334,257	-0.1%	-1.0%
Winchester	£350,099	-0.4%	-2.0%
Oxford	£320,501	2.7%	-3.9%
West Oxfordshire	£406,045	1.2%	-4.3%

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

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
Wales	£165,303	1.0%	4.2%
North East	£167,181	1.9%	3.2%
North West	£166,022	1.0%	2.3%
East Midlands	£194,798	0.3%	1.9%
West Midlands region	£199,802	1.2%	1.8%
United Kingdom	**£258,602**	**1.2%**	**0.7%**
England	**£232,710**	**0.5%**	**0.7%**
Yorkshire and The Humber	£248,837	0.5%	0.3%
South West	£292,444	0.1%	-0.5%
East of England	£477,813	1.0%	-1.4%
South East	£320,454	-0.7%	-2.0%
London	£127,466	-2.1%	-2.9%

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

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£472,753	-1.3%	-1.4%
Prime Central London	£1,102,002	-1.1%	-8.2%
South West London	£660,110	0.3%	-1.5%

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

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Hackney	£574,354	2.9%	5.4%
Lewisham	£425,996	3.5%	3.9%
Barking and Dagenham	£303,890	0.9%	2.7%
Lambeth	£514,315	1.3%	2.1%
City of London	£800,263	7.3%	2.1%
Redbridge	£427,984	1.3%	1.0%
Islington	£672,280	6.0%	0.7%
Bromley	£446,425	2.1%	0.4%
Greenwich	£388,508	-1.9%	0.3%
Newham	£366,266	4.5%	0.1%
Richmond upon Thames	£666,848	-0.2%	0.0%
Hounslow	£394,566	-0.3%	-0.4%
Enfield	£391,785	-0.1%	-0.9%
Southwark	£501,708	0.3%	-0.9%
Kingston upon Thames	£499,819	-0.8%	-1.0%
Wandsworth	£599,046	2.5%	-1.1%
Haringey	£549,148	-0.9%	-1.1%
Barnet	£527,183	3.7%	-1.2%
Camden	£815,639	-4.9%	-1.4%
London	£472,753	-1.3%	-1.4%
Bexley	£341,079	0.9%	-1.9%
Ealing	£476,497	-1.1%	-1.9%
Merton	£520,730	2.2%	-1.9%
Tower Hamlets	£431,421	1.2%	-2.1%
Havering	£364,497	-1.2%	-2.3%
Harrow	£451,870	-0.7%	-2.7%
Croydon	£361,014	-0.9%	-3.0%
Hillingdon	£402,210	0.1%	-3.0%
Hammersmith and Fulham	£714,435	-1.1%	-3.2%
Waltham Forest	£428,099	1.6%	-3.9%
Sutton	£370,154	-1.9%	-4.5%
City of Westminster	£914,776	-2.5%	-6.9%
Brent	£474,740	1.3%	-8.7%
Kensington And Chelsea	£1,289,229	-0.2%	-9.1%

Outer London	£425,002	0.3%	-1.7%
Inner London	£572,843	1.1%	-1.0%

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

HomeLet Rental Index, September 2019

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
North West	£739	-0.3%	4.4%
East Midlands	£653	-0.3%	3.8%
South West	£846	-0.7%	3.4%
Greater London	£1,694	0.3%	3.3%
North East	£535	0.8%	3.1%
UK Average	**£967**	**-0.3%**	**2.5%**
West Midlands	£718	-0.3%	2.4%
UK excluding Greater London	**£797**	**-0.6%**	**2.2%**
Wales	£634	-0.3%	2.1%
Scotland	£676	0.7%	2.0%
Yorkshire & Humberside	£657	0.3%	2.0%
Northern Ireland	£673	1.4%	1.4%
East Of England	£927	-0.3%	1.3%
South East	£1,045	-1.8%	0.2%

Source: HomeLet Rental Index, September 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 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.

Residential Research

Leslie Schroeder
Head of Residential Research
020 7529 1538
leslie.schroeder@carterjonas.co.uk

020 7518 3200
One Chapel Place, London W1G 0BG