Carter Jonas

RESIDENTIAL BRIEFING NOTE

September 2019

Market Overview

It has been a frantic and busy few weeks in UK politics: MPs voted not to hold a general election before the Brexit deadline of 31st October, Parliament has been suspended for five weeks, both the Scottish and Supreme Courts ruled this unlawful, MP's forced legislation compelling the government to ask for a further Brexit extension, the Speaker of the House announced he would be stepping down and the Liberal Democrats revealed a policy to revoke Article 50 and cancel Brexit were they to be voted in in the next election. Despite all of this there is still little clarity on Brexit related matters and as the 31st October deadline edges ever closer the UK economy showed some encouraging growth in July even if there are some very confused and cautious consumers and businesses.

Executive Summary

- *Following the GDP contraction of -0.2% during the second quarter, a 'robust' July growth figure of 0.3% helped to ease fears that we may be headed for a recession. A buoyant services sector helped to increase the overall figure;*
- *Although retail sales volumes shrank in August by 0.2%, this was largely due to the strong growth in July, caused by the high volumes exchanged due to Amazon Prime Day;*
- *Consumer confidence was down again in August, with all five of the GfK indices sub-sectors decreasing. The most negativity (unsurprisingly) was found in the General Economic Situation sub-sector;*
- *Brexit and domestic political uncertainty together with global trade tensions have resulted in very poor Purchasing Managers Indices (PMI) this month. All three PMIs declined, with the Manufacturing and Construction sectors showing contraction;*
- *The labour market is still robust, with low unemployment and high employment figures. Wage growth continues its run of strength (3.8% this month) but this puts additional inflationary pressure on the wider business world;*
- *House price inflation was once again sluggish with both the Nationwide index and the Official House Price Index reporting annual growth of less than 1%. Affordability and uncertainty are holding back both buyers and vendors and suppressing activity;*
- *The Halifax announced new methodology measures from this month's Index and has back-dated figures as well, using the new method. This has brought their house price data more in line with the other main indices at 1.8% annually;*
- *The latest RICS Residential Survey indicated subdued buyer demand across the country as New Instructions and Newly Agreed Sales were both down, and price growth was unchanged or declining in nearly every region.*

UK economic backdrop

- **The UK economy grew more than expected in July**, according to latest figure from the Office of National Statistics (ONS). **GDP was recorded at 0.3%** on the month following no growth in June and beating expectations of 0.1%. This might help allay fears that the UK could be headed for recession after a **0.2% contraction was recorded during the second quarter** – the first time the economy had shrunk since 2012. The report cited service sector growth of 0.3%, which has helped boost the overall figures, as it is the largest part of the economy. Overall, however, the sector is showing growth weakening through the year.

- **Retail sales contracted slightly during August, with the quantity bought declining by 0.2% compared with July and below the consensus expectation of no change.** Non-store retailing was the largest contributor to the fall, offsetting the high growth experienced in the sector during July which was mostly due to Amazon Prime Day. On the other hand food and non-food store sales grew by 0.2% and **on a three monthly basis (over the previous three months) retail sales volumes actually grew by 0.6% in August**, encouragingly above the long-term average of 0.5%.

- **Consumer spending continued its steady decline in August falling 1.3%** over the same month last year, according to the Visa Consumer Spending Index. The report goes on to say that spending has now fallen on an annual basis in each of the last 11 months. In detail, **eCommerce spending was down 0.5% year-on-year while Face-to-Face transactions fell for the fourth month in a row, by 1.2%**. Spending on Clothing and Footwear declined the most, down by 6% annually (likely due to unseasonal weather during the month) while Restaurants, Hotels and Bars saw transactions increase by nearly 4%.

- **UK Consumer Confidence for August 2019 measured -14**, a decrease of three points over July's figure with **all five sub-sectors having decreased in the month. GfK cites consumer nervousness surrounding Brexit for the strong negative readings**, particularly in the General Economic Situation category (over next 12 months) which has a reading of -38 this month, 12 points lower than in August 2018. The Personal Financial Situation indices (both backward and forward looking) are slightly more encouraging at +2 and -1 respectively, although they are still well down from the same month last year.

- **Amid ongoing global trade tensions and slowing growth, together with Brexit uncertainty August's Manufacturing Purchasing Managers Index (PMI) declined again this month to 47.4**, from 48.0 in July. This marks the steepest month of contraction in the sector for seven years. New orders and employment levels fell in the month and business optimism declined to its lowest levels since the question was included for future output, in July 2012.

- **UK Construction sector PMI also declined in August with a reading of 45.0 down from 45.3 last month**. This is the fourth consecutive month of contraction in the sector with commercial work again the worst performing area of activity likely due to delayed decision-making by clients as Brexit worries continue. As in the manufacturing sector, **business optimism was very weak** this month, the lowest reading since December 2008, again largely due to domestic political uncertainty.

- As with the other indicators, the **UK Services PMI also declined in August, moving from 51.4 the previous month to 50.6**, pointing to only a very marginal expansion in the sector. New business growth slowed in the month as Brexit uncertainty weighed heavily, while corporate spending was also subdued. **Input cost inflation accelerated in the month as increased staff wages took their toll coupled with higher fuel and utility costs**.

- **Inflation (Consumer Prices Index, CPI) fell to 1.7% in August**, down from 2.1% in July. Official analysis found that downward price contributions were largely from a fall in recreational and cultural goods and services (computer games) while clothing and footwear prices fell again this month following last month's first rise in nearly a year. Rising food and non-alcoholic beverage prices placed the largest offsetting upward contribution to the index.

- Average **weekly earnings in the three months to July reached 3.8%** (excluding bonuses), slightly below last month's 11-year high of 3.9% but **marking the twelfth month in a row of above 3% wage growth**. The ONS report on labour and wages goes on to say that the Construction and Finance and Business services sectors are experiencing the highest pay growth of over 5%, with manufacturing reporting the lowest growth of 2.4%. Meanwhile the rate of growth in public sector pay fell as pay rises to some NHS staff begin to fall out of the data range.

- The **UK employment rate remained at 76.1%** in the three months to July, the joint highest since 1971, when comparable records began. Estimates for the three months indicate there are **369,000 more people in employment than a year earlier, driven by more women** in employment and those who are self-employed. The **unemployment rate edged**

down slightly to 3.8% from 3.9% the previous month. The unemployment rate for women is 3.6%, the joint-lowest since records began in 1971 and 0.4 percentage points lower than a year earlier (4.0%).

- Sterling's value has seen volatility this month as the markets reacted positively and negatively to the various Brexit-related breaking news items. **At the time of writing the pound is $1.25 against the US dollar, up from $1.22 last month, and €1.13 against the euro**, also up from last month's low of €1.10.

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

Residential property market

Sales Prices and Rents

- The **Nationwide house price index shows annual house price growth of 0.6%** in August (latest data), up slightly from last month's 0.3% growth although still very sluggish. This is now **the ninth consecutive month that the index has shown growth below 1%**. The underlying strong fundamentals of a good labour market and strong wage growth, coupled with continued low borrowing costs are expected to support some house price growth. However wider uncertainty surrounding the economic and political situation in the country will undoubtedly continue to exert downward pressure meaning we are unlikely to see strong price growth anytime soon.

- After months of diverging and curious house price growth figures, **Halifax's house price index shows a more realistic figure this month indicating annual growth of 1.8%. In this month's press release Halifax has noted an update to their methodology from 6 September 2019. This means they have backdated their previous annual growth figures and we note that these are now more in line with the other standard UK indices.**

- **House prices grew by just 0.7% in the year to July 2019, according to the latest UK Official House Price Index**, a slowdown from last month's 1.4%, with an overall UK average house price of £232,710. On a monthly basis prices grew by 0.5% marking the fourth consecutive month of monthly price rises, meaning that prices are now 2.4% higher in July than in March.

- **Housing inflation was strongest in Wales** which saw prices up by 4.2% in the year to July, followed by Yorkshire and the Humber (3.2%) and the North West at 2.3%. At the other end of the scale were the usual suspects: **the North East saw the steepest decline with prices down 2.9%, followed by the South East at -2.0% and London which saw house prices fall by 1.4%** annually.

- House prices in our regional Carter Jonas locations also show a general pattern of slow growth, mostly confined to places in the north (York, Leeds and Harrogate all showed growth this month) while prices fell annually in many of our locations across the South and South East, although Northampton in the Midlands also experienced falling prices. **Once again there are some notable contrasts between neighbouring locations as South Cambridgeshire and the wider Cambridgeshire district showed 1.7% and 2.2% growth respectively while prices fell by 0.3% in Cambridge itself. Similarly Vale of White Horse house prices grew 2.8% annually, while next door West Oxfordshire posted a strong decline of 6.7%**.

- Across London there was again a wide range of house price inflation and deflation although **prices declined across most parts of the capital, with an average price fall of 1.4% annually although prices have been rising over the last couple of months. Twenty seven of the 33 boroughs showed annual prices fall this month**, although Camden bucked the trend with hefty price growth of 9.5% (we expect this will be revised in the following months). At the bottom was Newham where prices fell by a hefty 9.6%, followed by Brent (-7.8%) and Waltham Forest (-6.4%). London house prices are now averaging £477,813.

- Signs that the wider political uncertainty is hampering price growth and hesitation amongst buyers and sellers were evident in **Rightmove's latest house price index (September). Although annual growth of average asking prices (newly-marketed properties) was 0.2%, on a monthly basis they fell by the same amount with the report indicating that this is the first time in nine years that September has seen a fall in asking prices**. Rightmove goes on to say that the price of newly agreed properties was buoyed mostly by the northern regions. Price growth in London and the South East was in negative territory at -2.1% and -1.1% respectively, while new seller asking prices rose in all other areas compared to a year ago.

- Price growth is also shown to be muted across the country, according to the **latest RICS Residential Survey** (August) as activity levels are subdued. However, the report does indicate that downward momentum in pricing may be waning as the headline RICS price balance improved to -4% this month from -9% in July. **Regionally, respondents across London, the South East and East Anglia once again reported outright declining prices** while those in Scotland, Northern Ireland and Wales indicate some house price inflation. Looking ahead and **the near term outlook for prices is fairly negative with 24% of participants anticipating a decline over the next three months, although 12% are expecting price increases over the next 12 months**. The report is keen to point out however **that London respondents see prices continuing to fall over the 12 months**.

- According to **ARLA Propertymark's** latest Private Rented Sector report, **July marked the highest number of tenants on record to experience rent rises**. 63% of agents witnessed landlords increasing rents, a 15% increase over June's figure, which was the previous high. Tenants in the West Midlands were the worst affected with 86% of agents reporting their tenants experienced a rent increase during the month. This supports our prediction that the introduction of the Tenant Fees Act 2019 in June, would result in upward pressure on rents as landlords tried to recoup costs in other ways. Having said this, as we discuss below in the Activity section, the same report goes on to show that demand for rental properties is on the rise, while supply has gradually decreased. Therefore we think that rents are increasing due to a combination of supply / demand dynamics coupled with the change in legislation.

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

Activity

- Seasonally adjusted figures from HMRC find **that transactions fell by nearly 9% during July and by over 12% compared with the same month last year**. Year to date transactions now stand at 665,800 (to July) compared with 687,500 over the same period last year and equating to a fall of around 3.2%.
- On the other hand Bank of England's **mortgage data shows approvals were up in July over the same time last year, by around 3.2%** leading to a total of 67,306 approvals during the month. This means that year to date approvals have increased by around 1.4% so far in 2019.
- Mortgage completions for first time buyers remained virtually unchanged in July, while home mover mortgages increased by 5% over June's figure, according to UK Finance's latest Mortgage Trends analysis. **Compared with the same month last year, there was a small increase in mortgage completions of 2% to 71,150. However, year to date there have been around 2% fewer mortgages completed** compared with the same period in 2018, with declines in all areas including first time buyers, home movers and buy-to-let.
- The latest **RICS Residential Survey (August) held little to no positive readings this month**, with **Brexit uncertainty once again cited as the most significant factor in deteriorating confidence amongst buyers and vendors**. August saw virtually no change in buyer demand across the country, after two months of increasing New Buyer Enquiries while Newly Agreed Sales also slipped further into negativity, moving from -6% to -8% this month. Looking ahead and near term sales expectations took a nosedive from -4% to -23% with appraisals reportedly down on an annual basis across all parts of the UK.
- The August RICS survey reports an increase in **tenant demand** for the eighth consecutive month. **Landlord instructions however declined**, with the report indicating this trend stretching on now for three years.
- **Similarly, demand for rental properties reported by ARLA Propertymark showed an increase in July**. Letting agents report an average of 73 new prospective tenants were registered in the month, an increase from an average of 70 in June. **The supply of rental properties continues to tighten as letting agents report an average of 184 managed properties per branch, down nearly 8% from 199 in June**. Supply of properties is again the lowest in London where agents typically had 147 properties on their books compared with 350 in Scotland.
- **Demand for rental properties increased a hefty 7%** across the UK, according to Rightmove's latest quarterly Rental Trends Tracker (Q2 2019). This is well above the average 1% increase that is usual for this time of year with agents **reporting an increase in enquiries from tenants looking to move now that tenant fees have been removed**. However, the report goes on to say that the growing shortage of rental properties over the last few years means that an increase in demand will make it more difficult for tenants to find 'the right property for them'.

HM Treasury **Forecasts for the UK Economy,** August 2019
(latest data)

	2019	2020	2021	2022	2023
Official Bank Rate (%)	0.78	0.93	1.02	1.42	1.66
House Price Growth (annual, %)	0.9	1.3	2.5	3.7	3.4
CPI inflation rate (annual average, %)	1.8	2.1	2.0	2.1	2.1
Unemployment rate (%)	4.0	4.1	4.3	4.3	4.3
GDP (annual, %) (OBR in brackets)	1.3	1.2	1.6	1.7	1.7
Average earnings growth (annual, %)	3.3	3.2	3.1	3.3	3.3

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

Select Market Indicators, latest versus previous data

Market Indicator	Current	Previous	Direction of change
GDP (quarterly)	-0.2%	0.5%	↓
Retail sales volumes (monthly % change)	-0.2%	0.4%	↓
GfK Consumer Confidence Index	-14	-11	↓
Visa UK Consumer Spending Index (annual % change)	-1.3%	-1.2%	↓
IHS Markit / CIPS Manufacturing PMI	47.4	48.0	↓
IHS Markit / CIPS Construction PMI	45.0	45.3	↓
IHS Markit / CIPS Services PMI	50.6	51.4	↓
Inflation rate	1.7%	2.1%	↓
Interest rate	0.75%	0.75%	↔
Employment rate	76.1%	76.1%	↔
Unemployment rate	3.8%	3.9%	↓
Weekly earnings growth (not incl bonuses)	3.8%	3.9%	↓
£ Sterling: $ USD	$1.25	$1.22	↑
£ Sterling: € Euro	€1.13	€1.10	↑
Rightmove annual average asking price inflation (newly-marketed)	0.2%	-1.0%	↑
Nationwide annual house price inflation	0.6%	0.3%	↑
Halifax annual house price inflation	1.8%	4.1%	↓
Official UK House Price inflation (annual, HM Land Registry)	0.7%	1.4%	↓
HomeLet Rental Index (annual growth, UK)	1.8%	1.6%	

Sources: ONS (unless otherwise indicated)

Official House Price data, HM Land Registry, July 2019

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
Vale of White Horse	£360,913	2.3%	2.8%
Cambridgeshire	£300,341	1.3%	2.2%
York	£257,705	1.6%	1.9%
South Cambridgeshire	£379,169	1.3%	1.7%
Leeds	£184,068	0.7%	1.0%
Harrogate	£289,474	3.2%	0.5%
Suffolk	£245,650	0.7%	0.3%
Wiltshire	£276,337	2.3%	0.1%
Babergh	£288,530	2.9%	0.0%
South Oxfordshire	£403,402	-3.0%	-0.1%
Cambridge	£440,342	0.1%	-0.3%
Bath and North East Somerset	£337,466	1.9%	-0.4%
West Berkshire	£353,284	-0.6%	-0.6%
Northampton	£213,076	0.4%	-0.6%
Northamptonshire	£226,471	-0.7%	-1.0%
Winchester	£405,424	-1.6%	-3.3%
Oxford	£399,871	1.1%	-3.4%
West Oxfordshire	£309,069	-2.8%	-6.7%

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

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
Wales	£165,303	1.0%	4.2%
Yorkshire and The Humber	£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%
South West	£258,602	1.2%	0.7%
United Kingdom	**£232,710**	**0.5%**	**0.7%**
England	**£248,837**	**0.5%**	**0.3%**
East of England	£292,444	0.1%	-0.5%
London	£477,813	1.0%	-1.4%
South East	£320,454	-0.7%	-2.0%
North East	£127,466	-2.1%	-2.9%

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

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£477,813	1.0%	-1.4%
Prime Central London	£1,126,322	-1.1%	-2.1%
South West London	£667,331	2.5%	0.2%

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

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Camden	£917,594	7.0%	9.5%
Greenwich	£405,020	3.8%	4.0%
Hackney	£566,489	0.6%	2.3%
Hammersmith and Fulham	£746,230	3.7%	1.3%
Richmond upon Thames	£670,233	1.7%	1.2%
Haringey	£561,200	3.0%	0.9%
Barking and Dagenham	£295,875	-0.9%	0.3%
Ealing	£477,206	-0.5%	-0.2%
Redbridge	£422,970	1.9%	-0.3%
Havering	£371,023	1.9%	-0.7%
Bromley	£437,580	1.2%	-0.8%
Lambeth	£508,137	0.9%	-0.8%
Harrow	£461,062	1.7%	-0.8%
Southwark	£496,612	-0.2%	-1.0%
City of Westminster	£956,783	-2.5%	-1.0%
Kingston upon Thames	£504,772	4.2%	-1.1%
London	£477,813	1.0%	-1.4%
Enfield	£390,314	-0.7%	-1.9%
Hillingdon	£407,761	2.5%	-2.1%
Wandsworth	£585,529	1.8%	-2.3%
Hounslow	£393,436	-1.9%	-2.4%
Bexley	£336,807	-0.6	-2.6%
Tower Hamlets	£437,060	2.5%	-2.7%
Kensington And Chelsea	£1,295,861	0.0%	-2.9%
Barnet	£507,598	-0.2%	-3.0%
Lewisham	£399,485	-1.8%	-3.4%
Sutton	£371,682	-0.7%	-3.7%
Croydon	£359,504	-0.3%	-4.0%
Merton	£507,087	0.7%	-4.8%
Islington	£638,991	0.7%	-5.7%
Waltham Forest	£416,460	-2.1%	-6.4%
Brent	£465,422	-0.5%	-7.8%
City of London	£743,181	-3.2%	-8.2%
Newham	£333,125	-6.8%	-9.6%

Outer London	£423,291	0.6%	-1.9%
Inner London	£568,387	0.4%	-1.9%

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

HomeLet Rental Index, July 2019

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
South West	£855	1.5%	4.5%
Wales	£637	1.9%	4.3%
Scotland	£679	1.2%	4.3%
Greater London	£1,665	3.4%	3.1%
Northern Ireland	£671	0.0%	2.8%
East Midlands	£646	1.7%	2.4%
UK Average	£959	1.9%	2.3%
UK Excluding Greater London	£764	-2.2%	2.2%
North West	£726	2.1%	2.0%
East Of England	£925	0.9%	1.8%
South East	£1,053	1.7%	1.2%
West Midlands	£709	2.0%	1.1%
Yorkshire & Humberside	£641	1.1%	0.9%
North East	£529	-0.2%	0.8%

Source: HomeLet Rental Index, July 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.

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