Carter Jonas

RESIDENTIAL BRIEFING NOTE

September 2020

Market Overview

GDP output continues to growth month on month, as have retail sales but there is still a lot of caution and nervousness around the pace of the economic recovery and what lies ahead, particularly in the labour market as the Coronavirus Job Retention Scheme expires at the end of October. What's more, COVID-19 cases are again increasing, raising the potential for further local lockdowns with the possibility of a national lockdown if numbers are not kept under control, adding further nervousness for consumers and businesses about the near-term future.

The housing market's recovery though steams ahead as pent-up demand during lockdown, together with changing household aspirations brought on by the lockdown and the stamp duty holiday has people flocking (back) into the market. Mortgage approval numbers have returned to normal for this time of year, and Nationwide reported the steepest monthly increase in house price for over 16 years.

But it is not good news for everyone; first time buyers now find themselves not only with fewer mortgage products to choose from (90% LTV loans have declined significantly since lockdown) but they are now competing with house movers taking advantage of the stamp duty holiday, which of course many FTBs never had to pay anyway. What's more the market has undoubtedly seen an increase in second home or buy to let purchasers looking to take advantage of the stamp duty holiday, again creating more competition for FTBs, increasing demand and pushing up prices even further out of reach for some.

Executive Summary

- *Official GDP estimates for July continue to show robust levels of growth as yet more services reopened and businesses tried to return to normal. July's GDP output was 6.6% although output is still 11.7% below is pre-pandemic level.*
- *All three Purchasing Managers Indices continue to indicate expansion across all sectors although employment falls and caution about the long-term, post-pandemic future of the economy is putting downward pressure on optimism and business confidence.*
- *Retail sales volumes rose during August, albeit at a slower pace than the last few months. This means that volumes are now 4.0% above where they were in February, prior to the pandemic.*
- *The unemployment rate finally edged up in the three months to July, rising to 4.1% from 3.9% previously and is now at its highest rate in two years. Those registered with PAYE in employment fell again meaning there are now 695,000 fewer people on UK payrolls than in March 2020.*
- *Wage growth continues to be stifled as regular pay (excluding bonuses) rose by just 0.2%, still one of the lowest rates ever recorded following last month's first-ever fall of -0.2%.*
- *Both the Halifax and Nationwide house price indices showed strong annual price growth during August (5.2% and 3.7%, respectively) but perhaps even more interesting was how sharp the monthly rises were: at 2.0% Nationwide recorded the highest month on month average house price growth in over 16 years, while Halifax recorded a similar figure of 1.6%.*
- *ONS's Official House Price Index showed some robust UK house price growth during June, both monthly (2.7%) and annually (3.4%). We remain cautious with the data though as revisions to the previous months have been quite substantial.*

UK economic backdrop

- **UK GDP output grew by 6.6% in July,** down from 8.7% last month as the economy continues its steady climb from the trough in April and May. The latest monthly report found that education grew strongly, as did car sales, pubs and hairdressers as more services opened to the public again. All areas of manufacturing also recorded growth as did construction and agriculture, however the UK economy is still yet to make up even half of the GDP lost since the start of the COVID crisis in March. In detail, **July GDP is now 18.6% higher than it was in April but 11.7% below February's level.**

- Retail sales volumes increased 0.8% during August, down from July's increase although that was a crucial month for the industry as many retailers were still in the process of opening back to normal hours and services. It is still the **fourth consecutive month of growth and marks an increase of 4.0% above February's pre-pandemic level.** Spending on home improvements continued to rise during August, and non-store retailing volumes (non-store is largely made up of online retailers) were up nearly 40% above February's level, while clothing stores were still 16% below February's figure.

- August's **Manufacturing Purchasing Managers Index (PMI) rose again to 55.2** from July's figure of 53.3. The data showed the strongest growth in factory activity since February 2018 **while new orders rose at their fastest rate in nearly three years** and overall business sentiment remained positive. However, as many analysts had expected, employment fell again this month, this time at the steepest rate for 11 years.

- **The construction sector PMI for August showed an unexpected monthly deceleration in the pace growth,** from 58.1 in July to 54.6, well below market expectations. **A lack of new work following the tying up of current projects seems to be stopping the industry from expanding** much further. The civil engineering sector showed contraction during the month while the commercial and housebuilding sectors grew but at a slower pace. On a positive note however business sentiment appears to have improved as large infrastructure projects and increased public sector construction spending rises.

- The **UK services sector meanwhile reports its steepest rate of expansion in over five years** as the services sector PMI rose to 58.8 from July's 56.5. Rising spending during the government's Eat Out to Help Out scheme likely helped boost spending, as has the strong housing market. More cautiously however new work orders from abroad have decreased, as has employment in the sector. Unlike other industries, **business confidence eased for the first time since March as there are overriding concerns about the actual strength of the economic recovery** and a potential weakening of the labour market.

- A big decline in prices following the government's Eat Out to Help Out scheme during **August resulted in the largest downward contribution to the August inflation rate which declined to 0.2%** from 1.0% the previous month, the lowest level in almost five years. Other downward contributions came from falling air fares and clothing and footwear prices with the former being atypical for the time of year since August is usually the peak holiday month, normally keeping air fares and travel prices high.

- The August 2020 flash estimate of employees in the UK on PAYE payroll indicates this was down around 695,000 compared with March 2020, with 36,000 fewer in August than July. Furthermore, labour market data **for the three months to July 2020 finally showed a rise in unemployment to 4.1%** from 3.9%, after the figure did not show any effect due to the pandemic and lockdown for many months. This makes it the highest unemployment rate in two years, although the employment rate was up slightly at 76.5%. This rise in employment appears to be a result of an increase in people either reported as inactive or temporarily away from work.

- The labour force survey goes on to show that young people age **18-24 have been impacted the most by recent changes in the labour market with those employed in this age range falling by 146,000 over the last quarter,** compared with an increase of 236,000 employed between the ages 25-64.

- Following three months of strong falls in pay growth, the pace of decline finally slowed in July with **regular pay growth (excluding bonuses) rising by 0.2%** following last month's decline of -0.2%. This is still very subdued though and is some of the lowest earnings growth data in over a decade. Total pay continued to decline by -1.0% as this figure includes bonuses which have clearly been subdued over the last few months and indeed **bonuses fell by an average 21.4% in the three months to July 2020.**

- **Interest rates were held again at 0.10%** at the latest Monetary Policy Committee meeting in September. The Bank of England's committee said that the economic outlook because of the pandemic remains uncertain, although it did not increase its quantitative easing support. The minutes of the meeting show that **the Bank also does not expect inflation to return to 'target levels' of 2%, for another two years** and thus has no intention of raising interest rates.

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

Residential property market

Sales Prices and Rents

- Data from **Nationwide found house prices grew by 3.7% in August,** over the same time last year, while on a monthly basis prices jumped 2.0%, **the highest monthly rise in over 16 years.** In line with our view, the bank is cautious that over the coming months housing market activity may slow if forecasts of a weakening labour market come to fruition.

- Similarly, **August house prices grew by a robust 5.2% annually according to Halifax's** latest house price index while on a monthly basis the bank reported growth of 1.6% over July's figures. Nevertheless their latest report also points to the government's winding down of various labour market support measures over the next few months as leading to an end to much further inflation in the housing market as **the bank anticipates downward pressure on pricing in the medium-term.**

- Official House Price Index data up to **June 2020 revealed that house prices rose by an average of 3.4% annually,** up from May's recorded increase of 1.1%. On a monthly basis the index showed a robust rise of 2.7%, indicating that once lockdown restrictions had been removed in mid-May demand must have risen substantially (which we already know that it did) and prices appear to have followed suit. Such a strong monthly rise is unusual though so must be treated with caution given the volatility in the market and registrations.

- On a regional basis **all UK regions recorded annual price rises during June,** with the East Midlands (4.5%), North West (4.4%) and the South West (4.3%) showing the highest rises. Average London prices rose by an average of 4.2%, the steepest annual rise in almost five years. All regions also showed some very robust monthly prices rises ranging from 4.3% in the North West to 1.6% in the South East. **Monthly figures like this however are not normally so strong, indicating that a lack of sales may be adding pricing volatility and the data should therefore be treated with caution.** Indeed, we expect some revisions over the coming months, as has been the case over the last few months.

- August's **RICS UK residential market survey found a sharp rise in house price growth** over the month with a net balance of +44% of respondents reporting an increase in prices, the strongest reading in the survey since 2016. This increase was seen across nearly all parts of the country **with the exception of London where respondents in the Capital suggest that prices there have remained flat for the last two months.**

- **Rightmove's September house price index found that the price of property coming onto the market was up 5.0%** over the same period last year, the highest annual growth rate in four years, and 0.2% over August's prices. The report found that regions in the north experienced the strongest price rises with Yorkshire & the Humber, East Midlands, West Midlands, the North East, North West and Scotland all setting new records.

- Meanwhile in the lettings market the RICS residential survey noted another rise in rental growth expectations over the near-term, going on to say that this is now the third consecutive month where increases have been forecast.

- Staying with the private rental market and HomeLet's **latest August research found that average rents across the UK grew by 1.5% year on year,** and 2.1% over the previous month. Eleven out of the twelve of the regions covered in the report showed an increase in rents, with the South West (5.5%), the North West (5.4%) and Yorkshire and Humberside (3.5%) topping the table. The outlier is Greater London where average rents have declined by 2.1% annually. **London continues to be the hardest hit region of the lettings market as international renters and students have still not returned to the capital in their usual numbers.**

Activity

- **Bank of England mortgage data for July shows what can only be described as a V-shaped recovery in activity,** following lockdown and the rapid decline in approvals during April and May. With 66,281 approvals reported during the month this is 66% higher than June and even more interestingly, is only 1% below the same month one year ago.

- HMRC recorded property **transactions rose sharply during August, up 16% compared with July to 81,280,** nearly double what was transacted during April and May. We expected this rise as sales are recorded and stamp duty paid only several weeks or months after completion and we expect further increases through September and the coming months particularly as the latest legislation with regards to the stamp duty holiday. There is still some way to go before activity is back to 'normal' levels though and **year to date total sales are 25% below where they were this time last year.**

- There have been far fewer 90% LTV mortgages on the market over the last few months with many having been withdrawn during the height of the pandemic crisis. According to the financial information firm Moneyfacts, in September 2019 there were over 1,000 mortgage deals requiring a deposit of 10% or less, while this September there are just 75. **Some lenders have responded to the robust activity in the market by launching a limited number of these loans with strict criteria attached.** Both TSB and Accord Mortgages have offered a restricted number of 90% loans over limited 24 and 48 hr periods, with little to no notice and strict criteria, while HSBC had been running similar offers from 8am each day, although these have now been discontinued.

- Sentiment in the residential sales market continues to indicate very strong levels of interest and activity, as **the August RICS UK residential market survey notes that +63% of contributors reported an increase in new buyer enquiries. There was also a +46% increase in new listing instructions and +61% rise in new sales.** Looking ahead and respondents expect that these levels of activity and interest will remain over the near-term while a negative net balance of -17% suggest that over the longer-term 12-month period sales are forecast to decline. **Concerns about the longer-term impact of the pandemic on the economy still weigh heavy and are driving this negativity and expectation of an eventual fall in sales levels.**

- Rightmove reports in their latest house price index that there is a very **strong demand for larger homes with this end of the market seeing agreed sales jump 104%** compared with the same period last year. Rightmove calls these larger properties ‘top of the ladder’ and goes on to say that in London this end of the market is seeing very strong activity, particularly in the Outer London boroughs. Rightmove also notes that on a national basis year to date **agreed sales are down just 5% compared with the same period last year** while two regions (East of England +4%, the South East +1%) have seen more agreed sales so far this year than the same period last year which is **remarkable considering the market was frozen for six weeks during the Spring.**

- The RICS residential survey reported that **tenant demand in the lettings market rose sharply again during August,** although this month landlord instructions were flat following last month’s first rise in over four years.

HM Treasury Forecasts for the UK Economy, September 2020

	2020	2021	2022	2023	2024
Official Bank Rate (%)	0.10	0.30	0.99	1.34	1.55
House Price Growth (annual, %)	-2.0	0.4	3.6	3.1	3.2
CPI inflation rate (annual average, %)	0.6	2.0	1.9	2.0	2.0
Unemployment rate (%)	8.0	6.5	4.1	4.1	4.1
GDP (annual, %)	-10.0	7.0	1.7	1.8	1.7
Average earnings growth (annual, %)	-1.2	2.5	3.2	3.2	3.3

Sources: HM Treasury Consensus Forecasts (August 2020)

Select Market Indicators, latest versus previous data

	Current	Previous	Direction of change
GDP monthly (June, month-on-month)	6.6%	8.7%	↓
Retail sales volumes (monthly % change)	0.8%	3.6%	↓
IHS Markit / CIPS Manufacturing PMI	55.2	53.3	↑
IHS Markit / CIPS Construction PMI	54.6	58.1	↓
IHS Markit / CIPS Services PMI	58.8	56.5	↑
Inflation rate	0.2%	1.0%	↓
Interest rate	0.10%	0.10%	↔
Employment rate (to June 2020)	76.5%	76.4%	↑
Unemployment rate (to June 2020)	4.1%	3.9%	↑
Weekly earnings growth, regular pay (excl bonuses)	+0.2%	-0.2%	↑
Nationwide annual house price inflation	3.7%	1.5%	↑
Halifax annual house price inflation	5.2%	3.8%	↑
Official UK House Price inflation (June 2020)*	3.4%	1.1%	↑
Rightmove House Price Index (annual, asking prices)	5.0%	4.6%	↑
HomeLet Rental Index (annual growth, UK)	1.5%	1.5%	↔
£ Sterling: $ USD	$1.30	$1.32	↓
£ Sterling: € Euro	€1.10	€1.11	↓
Brent Crude (USD)	$42.06	$45.06	↓
Gold (USD)	$1,943.36	$1,990.04	↓
FTSE 100	6,053.24	6,071.62	↓
UK 5 Year Gilt Yield	-0.125	-0.055	↑

Sources: ONS (unless otherwise indicated) (final six indicators retrieved on 17 September)

Official House Price data, HM Land Registry, June 2020*

Sources: HM Land Registry

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
West Oxfordshire	£339,307	-0.5%	7.5%
Bath and North East Somerset	£354,739	0.0%	7.5%
Cornwall	£239,163	0.4%	4.9%
South Oxfordshire	£428,108	-0.6%	3.9%
Wiltshire	£278,773	1.1%	3.8%
Suffolk	£249,728	1.5%	3.3%
York	£261,560	-0.4%	3.2%
Northamptonshire	£233,451	-0.1%	2.9%
Dorset	£293,113	0.4%	2.9%
Leeds	£187,745	1.5%	2.8%
Somerset	£239,317	0.9%	2.6%
Vale of White Horse	£361,023	1.0%	2.4%
Devon	£261,584	-0.5%	2.0%
Cambridge	£439,803	0.5%	1.6%
Cambridgeshire	£298,045	1.7%	1.4%
South Cambridgeshire	£378,656	3.4%	1.2%
Northampton	£214,194	-0.3%	0.7%
Winchester	£407,048	-1.6%	0.5%
West Berkshire	£349,121	0.8%	-1.4%
Oxford	£382,444	-2.0%	-1.8%
Harrogate	£268,083	-2.0%	-4.9%

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
East Midlands	£200,682	2.6%	4.5%
North West	£170,939	4.3%	4.4%
South West	£263,474	2.9%	4.3%
London	£490,495	3.6%	4.2%
West Midlands region	£204,664	3.0%	4.1%
England	**£254,423**	**2.8%**	**3.5%**
United Kingdom	**£237,834**	**2.7%**	**3.4%**
Yorkshire and The Humber	£169,020	2.7%	3.3%
Wales	£167,505	2.7%	2.8%
East of England	£295,856	2.0%	2.6%
South East	£327,558	1.6%	2.1%
North East	£131,742	2.9%	1.7%

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£490,495	3.6%	4.2%
Prime Central London	£1,185,575	2.3%	3.4%
South West London	£661,335	1.1%	2.5%

Official House Price data, HM Land Registry, June 2020*

Sources: ONS / HM Land Registry

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Islington	£680,890	2.6%	8.7%
Waltham Forest	£452,369	1.3%	7.3%
Kensington And Chelsea	£1,376,965	1.4%	7.1%
Lewisham	£433,008	3.1%	7.0%
City of London	£813,718	-2.7%	6.9%
Merton	£529,927	1.6%	6.6%
Hackney	£581,519	0.0%	6.1%
Richmond upon Thames	£687,137	1.7%	5.6%
Brent	£502,129	3.3%	5.6%
Lambeth	£532,170	3.9%	5.5%
Tower Hamlets	£450,606	-3.5%	5.2%
Hounslow	£418,503	2.3%	4.5%
London	£490,495	3.6%	4.2%
Southwark	£515,122	0.2%	4.0%
Newham	£373,415	0.5%	3.9%
Hillingdon	£410,117	-0.1%	3.6%
Wandsworth	£593,908	-2.8%	3.2%
Barking and Dagenham	£301,478	2.4%	2.6%
Bexley	£345,568	1.6%	1.9%
Redbridge	£415,748	0.2%	1.9%
Havering	£370,920	1.1%	1.5%
Kingston upon Thames	£491,174	0.7%	1.5%
Croydon	£367,521	-0.3%	1.1%
Haringey	£543,890	-1.5%	0.7%
Enfield	£392,768	-1.0%	0.7%
Barnet	£514,152	-1.5%	0.3%
Sutton	£371,550	-0.2%	0.2%
Greenwich	£388,441	-1.0%	0.1%
City of Westminster	£994,184	3.6%	-0.2%
Harrow	£446,995	0.2%	-0.2%
Bromley	£427,541	1.2%	-0.4%
Hammersmith and Fulham	£702,961	4.1%	-1.2%
Ealing	£467,720	-1.0%	-1.3%
Camden	£836,605	-2.0%	-4.3%
Outer London	**£427,227**	**0.5%**	**2.0%**
Inner London	**£585,224**	**0.4%**	**3.5%**

**In May, the ONS suspended the Official House Price Index until further notice. On 19 August, the publication resumed and the catch-up schedule means data is now up to and including June 2020.*

HomeLet Rental Index, August 2020

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
South West	£899	2.6%	5.5%
North West	£781	1.0%	5.4%
Yorkshire & Humberside	£678	1.2%	3.5%
Scotland	£692	0.0%	3.1%
UK (excluding Greater London)	**£825**	**2.1%**	**2.9%**
North East	£546	2.1%	2.8%
West Midlands	£739	2.5%	2.6%
East of England	£954	2.4%	2.6%
East Midlands	£670	2.1%	2.3%
UK Average	**£985**	**2.1%**	**1.5%**
Wales	£641	0.5%	0.8%
Northern Ireland	£668	-0.9%	0.6%
South East	£1,070	3.5%	0.6%
Greater London	£1,653	2.6%	-2.1%

Source: HomeLet Rental Index

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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