Carter Jonas

RESIDENTIAL BRIEFING NOTE

February 2020

Market Overview

The latest GDP estimates aside (which were largely reflective of data prior to the election), the market shows improving conditions across many sectors as the positive sentiment we began to see last month spreads across more economic and property metrics. Although there is still some debate over whether this will be a long-term trend or just a bounce before a lower stabilisation settles in, many are taking it as a sign that certainty has finally settled within the markets.

In other news, one cannot escape the recent Covid-19 (coronavirus) outbreak which is worrying for global health and has so far had dire implications for human welfare. Looking ahead, the impact upon the Chinese and global economies will undoubtedly show some ramifications of this global health emergency. Huge travel restrictions and factory closures in China mean that trade and supply will at worst be disrupted and at best slowed, and indeed this has already been seen with firms such as JCB in the UK reportedly having to halt production lines due to a shortage of supplies arriving from China.

Executive Summary

- *Q4 GDP first estimates show flat economic 'growth' of 0.0% during the last quarter of the year although this follows an upwardly revised Q3 figure of 0.5% and is above analyst expectations of contraction;*
- *This month saw a welcome surprise across all three Purchasing Managers Indices (PMI) as all recorded above-expected rises during January including a 50.0 manufacturing PMI, which was the highest reading in ten months, and a services sector reading that showed the strongest rise since early 2016;*
- *Another month of increasing consumer confidence was reported by GfK during January, with the indicator rising to -9. Four of the five sub-measures increased over the previous month demonstrating renewed optimism in both personal finances and the economy generally;*
- *Consumers are clearly feeling more confident to spend as retail sales volumes rose by 0.9% in January, following months of falling sales levels;*
- *Labour market data is once again showing record levels as the employment rate reached a never-before-seen 76.5% driven by the record-high of women in employment at 72.4%;*
- *All three main house price indices showed more increases with the latest data showing annual growth of 1.9% (Nationwide), 4.1% (Halifax) and 2.2% (ONS) with each showing a small rise over their previous month's data;*
- *January's RICS residential market survey reports increased momentum across the residential market with activity rising in nearly every indicator: new enquiries, new instructions, agreed sales and market appraisals were all up and house price inflation has inevitably followed;*
- *Rightmove's quarterly rental report finds that average rents grew by 2.4% across the UK during 2019, and 4.2% in London as supply problems in the capital persist.*

UK economic backdrop

- The **first estimate of GDP during Q4 2019 indicated a stagnating economy** with a reading of 0.0%. This has however followed a revised Q3 GDP to 0.5% from a previous estimate of 0.4% and indeed many analysts had forecast a fall in GDP so a flat figure is not all bad. This initial estimate means the economy grew by around 1.4% during the year with a marked slower performance towards the end of the year. On a sectoral basis the indicators show rather lacklustre figures across the board, with the services sector growing at just 0.1%, the slowest rate since mid-2016. The construction sector showed growth of 0.5% but manufacturing output fell by 0.8%, the third consecutive quarter of falling output.

- **Retail sales volumes rose for the first time in six months to an above-expectation figure of 0.9%** suggesting that following the December election consumers felt more positive about their spending habits. Fuel sales fell by nearly 6% on the month so when fuel is excluded the figure is even higher at 1.7%. Looking at figures on a sectoral basis, clothing sales rose by 3.9%, food stores saw sales rise by 1.7% and department store sales rose by 1.6%, the first time in many months that department store sales have risen. At the other end of the scale however household goods sales fell by 1.1%.

- **Now with two consecutive months of improvement, the UK Consumer Confidence Index (reported by GfK) rose again to -9 in January up from -11 at the end of 2019.** Of the five sub-indices, four rose during January with the **Personal Financial Situation both backward and forward looking at encouragingly healthy** levels. The Major Purchases Index was the only measure to decline during the month, probably a reflection of post-Christmas tightening of spending rather than any indication of contraction in this measure.

- There was a surprise but welcome **rise in January's Manufacturing Purchasing Managers Index (PMI) to 50.0** from 47.5 the previous month, and well above market expectations of 48.9. This also marks **the highest reading since April 2019** and indicates a stabilisation of business conditions across the sector following eight straight months of contraction. There were higher levels of new work and a slight rise in employment also reported.

- The headline **Construction sector PMI (reported by IHS Markit / CIPS) increased to 48.4** in January up from 44.4 the month prior. **This marks the strongest reading from the sector since May 2019,** and although it is still indicating contraction it is the weakest pace of contraction since that date. Housebuilding and commercial construction contraction softened while civil engineering projects contracted sharply. Looking ahead, business optimism grew at its strongest level since April 2018 with the report finding that clients were more willing to spend following the general election result in December.

- Lastly, the **Services PMI provided one of the clearest signs yet of a post-election rebound with a strong rise in January, moving from 50 in December to 53.9 this month, well ahead of market estimates** of 51. This shows the sharpest expansion in the services sector since just after the EU Referendum in June 2016 and shows an increase in new business activity and new work which went up at its fastest rate in 16 months. Even more encouragingly, **the sentiment indicator reached its highest level in nearly five years** with improved expectations for domestic demand and the global economic outlook.

- There is no Monetary Policy Committee (MPC) meeting during February and therefore the bank rate and **interest rates remain unchanged at 0.75%.** There is still growing speculation that a sluggish economy coupled with below-target inflation may trigger a rate cut sooner rather than later.

- Consumer Price Index (CPI) **inflation finally rose for the first time in six months during January to 1.8%** from 1.3% in December and above consensus expectations of 1.6%. The largest upward contribution this month came from energy and fuel price rises, with fuel alone rising 4.7% - these rises however were due to previous price reductions 12 months ago which finally slowed in January 2019.

- The latest ONS labour market report finds **that unemployment remained unchanged at 3.8%** in the three months to December **while overall employment levels reached a record high of 76.5%**. Data indicates a rise of 336,000 people in employment compared with the same time in 2018, propelled by a rise of full-time workers which reached an all-time high of 24.42 million people with the main driver being an increase of women in full-time work which is now at its highest-ever levels.

- Estimated growth in **average weekly earnings** in the three months to December 2019 (ONS Labour Market report) indicates a continued slowing in growth as the measure **moves to 3.2% down from 3.4% the previous month** (excluding bonuses). This is still well above inflation which was below-target in December at 1.3%. On a sectoral basis the pattern of growth throughout 2019 remained as finance and business services saw the strongest growth at 4.2% followed by the construction sector at 3.6%. At the other end of the scale wholesaling, retailing, hotels and restaurants saw the lowest growth estimated at 1.5% for regular pay (excluding bonuses).

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

Residential property market

Sales Prices and Rents

- According to **Nationwide data, January saw a further increase in the pace of house price growth (annual) to 1.9%** up from 1.4% in December. This is the **strongest price growth in over 14 months** according to this Index and prior to December follows 12 successive months of price growth below 1%.
- More **punchy annual house price growth came from Halifax this month, with January's figure of 4.1%.** This is slightly more than December's figure of 4.0% and is another indicator that the housing market is also showing signs of a 'Boris bounce'. Average UK house prices according to Halifax are now £240,054 reflecting a monthly increase of 0.4%, slower than the previous two months which saw 1.8% and 1.2% in December and November, respectively.
- There was further positive news out of the ONS as the latest annual house price figures from the **official index show another slight rise in house price inflation during December, moving from (a downwardly revised) 1.7% in November to 2.2%** across the UK. Average house prices are now £234,742 across the UK and £251,711 in England.
- Looking at the regions in detail, an optimistic sentiment seems to have spread across the country as **every UK region is currently posting positive house price inflation for the first time in 27 months. This includes London with 2.3%** annual growth, the strongest price inflation here since October 2017 and the South East where at 1.2% house prices have grown by their highest in the last 16 months.
- Across our Carter Jonas regional locations there is still some variation in growth as areas across Cambridgeshire are showing house price falls, while Winchester has no growth and Wiltshire is at the bottom of the table at -2.7%. Despite this we do anticipate these areas to begin showing price growth soon as activity picks up across the board.
- Turning to London, the capital appears to have benefitted the most from a return to certainty following the December election. The region has again posted positive house price inflation of 2.3%, the strongest growth in over two years in London. **The outer London boroughs show annual growth of 0.6% in December, the first time this area has seen growth in 16 months,** while inner London is showing average rises of 0.5%, the fourth month in a row that this area has seen price rises.
- January's **RICS Residential Market Survey** points again to improving market conditions and finds that stronger trends in market activity has put pressure on pricing with the **net price balance moving to +17% this month compared with -2% in December**. Driving this growth is a pick-up in **house price inflation across London and the South East both of which moved into positive territory following several years of below-zero trends.** Going forward, survey respondents expect growing prices across all parts of the UK over the next 12 months, although Carter Jonas anticipates that following any strong post-election 'bounce', both activity and pricing will stabilise in mid-2020.
- **January saw average annual asking prices rise by 2.7% according to Rightmove's** latest analysis, including a monthly 2.3% rise, the largest monthly rise ever recorded for a January. The report makes a point to mention that the survey took place between 8 December and 11 January which means most of the properties analysed were post-election therefore concluding that **sellers are clearly eyeing the optimism as a good time to list.**
- ARLA Propertymark's latest private rented sector report finds **the number of tenants witnessing rent hikes remained at 32% during December**. This compares with a figure of 16% in December 2017 and 18% during December 2018, indicating that **rents are still rising more than they would normally do at this time of year**. On a regional basis 47% of tenants in Yorkshire and the Humberside report increasing rents compared with London where only 24% of tenants reported rises.
- **HomeLet's rental data for January finds that rents increased by an annual average of 2.3% across the UK**, down from December's 3.5% rise and with an average of £953 per calendar month

(pcm) this reflects no change on a monthly basis. Excluding London data, UK rents are around £793 pcm with the capital showing an average of £1,627 pcm. The report finds that rents rose in 9 of the 12 regions covered with the strongest growth coming in the North West at 8.7% followed by Wales (7.3%) and Scotland (6.2%) with just the South West, East of England and the South East seeing rents decline over the 12 months to January.

- **Rightmove's latest quarterly rental report finds that average rents in the UK rose an average of 2.4%** to reach an average asking rent of £817 per calendar month although on a quarterly basis this is down by 1.3%. London rents meanwhile grew by an annual average of 4.2% to £2,119 pcm, and 0.7% up on a quarterly basis, as the supply problem in the capital carries on. The report goes on to say that **over the past ten years rents in London have risen twice as fast as those outside of the capital,** equating to an additional £658 pcm over the decade.

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

Activity

- Transaction volumes across the UK increased again during December according to latest HMRC data. On a seasonally adjusted basis **there was a total of 104,670 transactions during the month, an increase of 6.2% over November's (revised) figure and nearly 7% more than the same month one year prior**. This provisional figure means that for 2019 there was a total of 1.18 million transactions, marking **almost no change over 2018's** total and confirms anecdotal evidence that 2019's sales volumes were no better or worse than they had been during the previous 12-24 months.
- **Bank of England mortgage data for December also finds an increase in approvals during the month**, with a total of 67,241 approvals across England. This is 2.6% more than the previous month and nearly 5% more than during December 2018. On an **annual basis this means there were 789,336 approvals during 2019 and represents a 1.0% increase over 2018's** total.
- Unlike the previous two sets of data, UK Finance found that in December completed mortgages were down compared with November, by around 5.3%. **Compared with the same month one year prior however mortgages were up by just under 2%** with the largest increase coming from the buy-to-let sector which saw an increase of 3.6% in December 2019 compared with December 2018.

With a full year's worth of data now in (although likely to be revised slightly in the coming months) total mortgage completions during 2019 were down around 4% compared to the previous year. **Both first time buyers and home mover mortgages were down by over 5% while buy-to-let mortgages show an increase of 5% during the year compared with the previous year**.

- **RICS reports a continuing improvement in market activity in their latest Residential Market Survey, marking the second month in a row** of increased activity and positive sentiment. The report finds that demand rose with a net balance of +23% reporting an increase in new buyer enquiries; agreed sales also rose for the second month in a row with +21% of respondents reporting an increase while new instructions and market appraisals were also reported to have increased across the board.
- Increased optimism following the December election was also evident across **Rightmove's latest data as they recorded a 15% increase in new buyer enquiries** over the same time the previous year, equivalent to 1.3 million buyer enquiries since the election (13 December-15 January). They further found a 7.4% rise in agreed sales over the same period.
- Across the UK, ARLA Propertymark reported that **for the third consecutive month, demand for rental properties declined during December, while the supply of rental stock increased**. The number of tenants registered per branch declined to 56 from 67 in November, while letting agents report an average of 206 properties under management per branch, up from 203 the previous month. This figure was highest in Scotland (300) and lowest in London.
- In stark contrast to the ARLA report, the January RICS Residential Market Survey found that a net balance of +24% of respondents reported that **tenant demand increased yet again in the three months to January while at the same time landlord instructions were reported to have fallen.** This is the 15th straight quarter of negative readings in landlord instructions and this obvious mismatch between supply and demand in this sector continues to point to rent increases ahead.

HM Treasury **Forecasts for the UK Economy,** January 2020
(latest data)

	2019	2020	2021	2022	2023
Official Bank Rate (%)	0.76	0.73	0.82	1.07	1.26
House Price Growth (annual, %)	1.3	1.8	3.0	3.5	3.0
CPI inflation rate (annual average, %)	1.5	1.8	1.9	2.1	2.1
Unemployment rate (%)	3.9	4.0	4.0	4.1	4.0
GDP (annual, %)	1.3	1.1	1.5	1.7	1.7
Average earnings growth (annual, %)	3.5	3.3	3.2	3.4	3.5

Sources: HM Treasury Consensus Forecasts (2019-2020 January 2020, latest) (2021-2023 December 2019, latest)

Select Market Indicators, latest versus previous data

Market Indicator	Current	Previous	Direction of change
GDP quarterly estimate (Q4 2019, q-o-q)	0.0%	0.5%	↓
Retail sales volumes (monthly % change)	0.9%	-0.6%	↑
GfK Consumer Confidence Index	-9	-11	↑
IHS Markit / CIPS Manufacturing PMI	50.0	47.5	↑
IHS Markit / CIPS Construction PMI	48.4	44.4	↑
IHS Markit / CIPS Services PMI	52.9	50.0	↑
Inflation rate	1.8%	1.3%	↑
Interest rate	0.75%	0.75%	↔
Employment rate	76.5%	76.3%	↑
Unemployment rate	3.8%	3.8%	↔
Weekly earnings growth (not incl bonuses)	3.2%	3.4%	↓
Nationwide annual house price inflation	1.9%	1.4%	↑
Halifax annual house price inflation	4.1%	4.0%	↑
Official UK House Price inflation (annual, HM Land Registry)	2.2%	1.7%	↑
Rightmove House Price Index (annual, asking price)	2.7%	0.8%	↑
HomeLet Rental Index (annual growth, UK)	2.3%	3.5%	↓
£ Sterling: $ USD	$1.30	$1.31	↓
£ Sterling: € Euro	€1.20	€1.17	↑
Brent Crude (USD)	$58.16	$64.87	↓
Gold (USD)	$1,608.35	$1,556.70	↑
FTSE 100	7,444.31	7,685.29	↓
UK 5 Year Gilt Yield	0.48	0.40	↑

Sources: ONS (unless otherwise indicated) (final six indicators as at 18 February)

Official House Price data, HM Land Registry, December 2019

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
Harrogate	£298,746	2.9%	5.9%
Leeds	£190,753	1.1%	4.8%
Oxford	£421,617	1.1%	4.5%
Cornwall	£241,058	0.4%	4.1%
West Berkshire	£365,013	3.9%	3.7%
Dorset	£304,410	2.5%	3.5%
York	£260,713	2.1%	3.5%
Bath and North East Somerset	£350,629	4.3%	3.4%
Devon	£267,137	0.4%	3.3%
West Oxfordshire	£335,833	0.5%	3.0%
Suffolk	£249,167	1.1%	2.2%
Somerset	£239,575	0.2%	1.9%
Northampton	£215,389	0.4%	1.7%
Northamptonshire	£229,822	0.2%	1.1%
South Oxfordshire	£408,016	-0.9%	1.1%
Vale of White Horse	£355,890	0.2%	1.0%
Winchester	£405,567	-3.4%	0.0%
Cambridgeshire	£292,445	-0.9%	-1.4%
South Cambridgeshire	£371,549	-0.2%	-2.2%
Cambridge	£437,288	-0.9%	-2.7%
Wiltshire	£273,066	-0.9%	-2.7%

Source: HM Land Registry

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
Yorkshire and The Humber	£168,382	1.7%	3.9%
East Midlands	£197,048	0.5%	2.8%
East of England	£297,714	2.1%	2.4%
London	£483,922	1.6%	2.3%
South West	£262,286	1.3%	2.2%
United Kingdom	**£234,742**	**0.3%**	**2.2%**
England	**£251,711**	**0.6%**	**2.2%**
Wales	£165,735	-2.0%	2.2%
North West	£166,003	-0.6%	2.0%
North East	£130,977	0.5%	1.8%
West Midlands	£201,343	-0.4%	1.4%
South East	£325,050	-0.3%	1.2%

Source: HM Land Registry

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£483,922	1.6%	2.3%
Prime Central London	£1,139,709	5.8%	-0.8%
South West London	£650,374	-1.5%	-0.2%

Source: HM Land Registry

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Brent	£505,388	2.0%	5.9%
Hounslow	£419,024	2.2%	4.4%
Tower Hamlets	£457,449	1.4%	4.3%
Greenwich	£400,164	0.9%	3.6%
Enfield	£411,794	4.3%	3.6%
Haringey	£562,296	0.1%	3.2%
Lewisham	£421,701	0.2%	2.9%
Croydon	£374,089	1.3%	2.8%
Southwark	£512,669	0.4%	2.3%
London	£483,922	1.6%	2.3%
City of Westminster	£984,511	2.8%	2.1%
Bromley	£452,429	2.8%	2.0%
Redbridge	£434,271	4.0%	1.8%
Lambeth	£519,275	-0.4%	1.6%
Newham	£360,691	-1.9%	1.6%
Hackney	£556,223	-0.4%	1.5%
Wandsworth	£603,883	-0.1%	1.4%
Islington	£629,529	1.0%	1.0%
Barking and Dagenham	£303,631	-0.8%	0.9%
Kingston upon Thames	£488,913	-0.3%	0.7%
Richmond upon Thames	£647,672	-1.6%	0.7%
Waltham Forest	£437,867	0.2%	-0.4%
Sutton	£373,162	-1.0%	-0.6%
Bexley	£341,237	1.4%	-0.8%
Havering	£367,898	1.0%	-1.2%
Hillingdon	£403,410	-1.4%	-1.8%
Ealing	£472,015	-1.5%	-2.1%
Merton	£506,341	0.3%	-2.6%
Harrow	£448,263	-0.9%	-3.0%
Barnet	£516,896	-2.0%	-3.1%
Kensington And Chelsea	£1,294,907	8.2%	-3.8%
Hammersmith and Fulham	£699,566	-2.6%	-4.6%
City of London	£738,263	-0.6%	-9.1%
Camden	£779,779	-4.5%	-9.8%
Outer London	£429,552	0.6%	0.6%
Inner London	£574,845	0.0%	0.5%

Source: HM Land Registry

HomeLet Rental Index, January 2020

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
North West	£764	1.1%	8.7%
Wales	£650	-0.5%	7.3%
Scotland	£666	1.8%	6.2%
East Midlands	£656	-0.9%	5.1%
Northern Ireland	£662	-0.6%	2.8%
Greater London	£1,627	-0.2%	2.5%
Yorkshire & Humberside	£651	-0.6%	2.4%
UK (excluding Greater London)	**£793**	**0.0%**	**2.3%**
UK Average	**£953**	**0.0%**	**2.3%**
North East	£540	-2.4%	1.1%
West Midlands	£699	-0.1%	0.9%
South East	£1,021	-0.2%	-0.1%
East of England	£907	-0.7%	-0.2%
South West	£851	1.3%	-0.9%

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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