

RESIDENTIAL BRIEFING NOTE

January 2020

Market Overview

The clear win for the Conservatives following the December General Election has instilled some much-needed confidence as a renewed sense of certainty gains some traction. The latest UK consumer confidence report noted a boost to how consumers felt about the wider economy during December, the latest RICS residential market survey was markedly more positive and all three of the main house price indicators registered notable increases in price growth this month. Wider press coverage has also focussed less intensely on Brexit over the last few weeks, choosing instead to run with a general feeling of positivity surrounding the Conservative majority.

Executive Summary

- *The economy shrunk by 0.3% on a monthly basis in November, much more than was anticipated although the stronger growth during September and October offset this and on a three-monthly basis GDP grew by 0.1% to November;*
- *All three Purchasing Managers Indices declined again during December, with all of them below 50, indicating contraction in each sector. In all PMIs however business confidence and sentiment figures rose following an increase in political certainty and the Government being able to implement their policies going forward;*
- *Consumer spending declined again in December (monthly, reported by Visa) although the pace of decline slowed, while retail volumes continued their downward trajectory, reporting the fifth month in a row of decline;*
- *GfK's consumer confidence index showed some positivity during December rising to -11. Encouragingly, the sub-indicator showing how consumers feel about the economy in the year ahead increased sharply, rising seven-points over the previous month;*
- *More robust employment figures to report this month, with employment growth over the quarter the highest in four years. Wages continue to grow well above inflation, at 1.8% in real terms;*
- *House price inflation in all three of the major indices showed a notable increase in trajectory this month although there is still a small discrepancy between them: Nationwide reports growth of 1.4%, Halifax of 4.0% and ONS data shows growth of 2.2% annually;*
- *December's RICS residential survey was much more positive than last month with all indicators moving upwards. New buyer enquiries, agreed sales, and new instructions were decidedly improved while expectations over the short-term and long-term were much more positive in both activity and pricing;*
- *Rental increases slowed in November, according to ARLA, who also report an overall increase in supply coupled with a small decline in new tenant registrations over the same period.*

UK economic backdrop

- On a monthly basis, **GDP figures for November show contraction of 0.3%** over October, much lower than consensus expectations. The manufacturing sector appears to have contracted the most at -1.7% followed by production at -1.2% while the construction industry showed a stronger increase of nearly 2% over October. On a three-monthly basis the strong growth during September and October means that the economy grew by 0.1%, but the **ONS still stated that growth in the economy is now at its lowest level since 2012 (year-on-year)**.
- **For the fifth consecutive month, the volume of retail goods bought declined again**, down by 0.6% in December compared with November's figure. The quantity bought in food stores fell by 1.3%, the largest fall since December 2016 in this category. **Declines were seen in most categories with only household goods stores and fuel** seeing a small improvement. Clothing again experienced strong declines at -2.0% on the month and the quantity bought within department stores continued its downward trajectory with a monthly decline of 1.8%. Online retailing accounted for 19.0% of all retailing in December, compared with 18.6% in November.
- Overall **consumer spending declined by 1.2% annually, in December** marking a softer fall than the -2.0% reduction in November, according to the latest **VISA UK Consumer Spending Index**. Compared to the previous month, expenditure fell by nearly 2% on a monthly basis following the 1.5% increase in November (likely due to a Black Friday bounce). **Online expenditure saw a strong uptick in December, rising 3.8%, the quickest rate in over two years**. The High Street category meanwhile continued to decline at a rate of -3.4%. On a spending by sector basis, annual growth rates show the greatest increase across the Hotels, Restaurants and Bars sector (3.8%) with the biggest declines across Health & Education (-3.8%) and Food, Beverage & Tobacco (-3.5%).
- The UK Consumer Confidence Index (as reported by GfK) increased to -11 in December from -14 during November. There was a **two point improvement in how consumers view their own financial situation (+3) as well as a healthy seven-point increase in how they see the wider economy in the year ahead (-27)**. Although the Overall Index has not moved into positive territory now for the past four years, GfK feels that **2020 will bring renewed optimism, particularly in a post-Brexit era** now that there is greater clarity in Government.
- The **December Manufacturing Purchasing Managers Indices (PMI) figure continues to show contraction at 47.5**, well below the previous figure of 48.9. Of the sub-categories, production saw the biggest decline since July 2012 while incoming new work decreased for the eighth consecutive month, due mainly to ongoing concerns surrounding the economic, global trade and political outlooks. More positively however the business sentiment figure for outlook increased in positivity due largely to regained certainty following the December General Election.
- The **UK Construction sector PMI** also fell during December, down to 44.4 from 45.3 in November and well below market expectations of an increase. This was also **the eighth straight month of a contracting construction sector and marks this the longest recorded fall in business activity across the sector for almost a decade**. On a slightly more positive note the rate of job declines slowed and input cost inflation was at its lowest since 2010. Business confidence also increased again.
- The final PMI to release finds the IHS / CIPS **Services sector also edged down in December to 49.0 from 49.3 the previous month. This is the strongest contraction in this sector for nine months** although new business volumes have stabilised and prices charged in the services industry have slowed at the lowest rate for nearly three years. The certainty following the election effected this sector as well, as job creation strengthened with an increase in business optimism which reached its highest rate for over a year.
- The **Monetary Policy Committee (MPC) meeting will be held on 30 January 2020**. Although a change of interest rates had not previously been expected this soon, the sluggish GDP figure together with poor retail sales numbers and a surprise fall in inflation mean that **the decision is quite finely balanced, perhaps slightly weighted towards a rate cut**.
- The Consumer Price Index (**inflation**) **declined in December to 1.3%**, down from 1.5% over the previous two months. The **largest upward contribution to inflation in the month has come from housing and household services**, although even this category has seen a fall in its overall impact on inflation since May 2019 due to an overall decline in electricity, gas and other fuel costs through the latter half of the year. At the other end of the scale, restaurants and hotels posted the strongest downward contribution to inflation, with clothing and footwear not far behind.
- The Office for National Statistics (ONS) reports that **employment levels rose slightly from September to November 2019, up to 76.3%**, 0.6 percentage points higher than a year earlier, and a rise of 208,000 more people employed during the quarter – **the largest quarterly increase since 2015**.

Unemployment meanwhile remained steady at 3.8%, largely unchanged over the previous quarter.

- The ONS Labour Market report further finds that **wage growth continues its strong run although it has slowed slightly to 3.4%** (not including bonuses) from 3.5% during the previous three months. Nevertheless, this figure is still well above inflation and **in real terms annual growth in regular pay is estimated to be 1.8%**. The construction sector reports the highest estimated growth at 4.6% for regular pay while wholesaling, retail, hotels and restaurants saw the lowest growth at around 2.1%; the pattern of strong growth in construction, finances and business services amongst a backdrop of lower growth in manufacturing, wholesaling, retail and restaurants has been seen throughout the whole of 2019.

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

Residential property market

Sales Prices and Rents

- **Nationwide house price index finds that average house prices grew by 1.4% during 2019**, up from 0.8% pa the month before and **the first time that prices grew by more than 1% in over 12 months**. Regionally Northern Ireland (3.4%) and Wales (2.9%) topped the growth during the year, followed by the North West at 2.5% but with London (-1.7%), the Outer Metropolitan London area (-1.5%) and the South East (-0.6%) all seeing house prices fall over the 12 months to December.
- **House prices growth rose sharply in December according to Halifax, with annual growth reaching 4.0% reflecting an average house price of £238,963. On a monthly basis prices increased by 1.7%, the strongest monthly increase of the year.** Halifax expects that as uncertainty around the economy eases during 2020, transaction volumes will increase with a rise in average household incomes making further house price growth possible.
- According to the **official House Price Index provided by the ONS, house prices grew by an average of 2.2% pa across the UK in November**, up from 1.3% in October. Average house prices in the UK are now around £235,298. **All three indices have seen house price growth accelerate**, meaning that **we may have seen the 'trough' in the market** – although the data over the next few months will be the litmus test.
- The **regions with the strongest house price inflation this month are still the ones where affordability ratios are low** with Wales (7.8%), West Midlands (4.0%), the North West (3.8%) and Yorkshire and the Humber (2.6%) at the top of the table. On the other end are again the regions with the highest affordability ratios (East of England, -0.7%; the South East, 1.0%) although London at 0.2% sees positive inflation (albeit negligible) for only the second time in 12 months.
- **House price growth showed some improvement in several of our regional office areas as well this month.** Cambridge tops the list with annual growth of 6.4% followed closely by Oxford at 6.3% and Leeds (4.4%) and Winchester (3.6%). On the other hand there are still some areas with struggling house price growth: with Bath and North East Somerset (-3.2%) followed by West Berkshire (-2.0%) and South Cambridgeshire (-1.4%) all coming in at the bottom of our regional offices table.
- As mentioned earlier, **London house prices grew by an annual average of 0.2%** in November according to ONS data, only the second month in over 12 months where prices have actually increased across the capital. **For the third month in a row, Inner London prices have increased, this month by an annual average of 0.5%.** Prior to September 2019, annual prices in Inner London had declined every month since January 2018. Outer London on the other hand has seen prices fall by 0.1% annually, the 15th consecutive month of falling house prices across the outer London boroughs. The two prime central London boroughs of Kensington and Chelsea and Westminster saw house prices fall the most of all 33 boroughs, by an average of -12.6% and -8.8% respectively.
- The latest RICS Residential market survey (December – conducted largely towards the end of the month and therefore post-Election), notes that **the headline house price balance is still broadly flat at -2% however this is much improved over the previous reading of -11%**. On a regional basis the South East, East Anglia and London continue to see house prices soften but the report points out that this is now only a modest decline. Looking ahead, **price expectations were all revised upwards over November in all parts of the UK** with the most notable shift upwards in London and the South East. Nationally the balance of +61% of respondents expecting price rises over the next 12 months is up from +33% in November.
- **Rightmove's** December House Price Index reports an **annual average house price growth figure of 0.8% during 2019**, well above the start-of-the-year forecast which was for no change.

This figure also confirms what was reported in the other three main indices: that the sector saw some bounce back in December as it follows a 0.3% growth in November, and -0.2% in October.

- According to ARLA's latest report into the private rented sector, the number of **tenants witnessing rental increases during November declined dramatically, with just 32% of agents saying that landlords had raised rents**. This is down 18% over October's figure and is **the lowest level since March**, although on a year-on-year basis it is still up by over 20%. Tenants across the North East, Yorkshire & Humber and the East Midlands were most likely to see their rents rise in November, with over 50% of agents saying landlords had increased rents in those areas.
- Average **monthly rents in the UK are now around £953 (December 2019) according to HomeLet's latest research. This is 3.5% higher than the same month in 2018** and represents a 0.6% increase over November's figure. Excluding London however rents are approximately £793 per calendar month (pcm), and 3.9% more than one year ago. Rents across the UK have now risen by more than 2% in nearly every month of 2019. The research finds that **rents again increased in every region** with Wales experiencing the highest average growth of nearly 10% followed by the North West at 8.3% and the North East at 6.3%. Meanwhile slowest growth was recorded across the South West (0.8%), West Midlands (1.6%) and East of England (2.0%).
- HomeLet finds that in **London rents rose by an average of 2.1%** over the year, with rents growing most in Wandsworth (8.2%) followed by Bexley & Greenwich (8.1%) and Croydon (7.5%). Across Chelsea, Fulham, Hammersmith and Kensington average rents are now around £2,109pcm having declined by around 1.4% over the year, while Westminster also saw a small decline of around 0.7% to reach an average of £2,427pcm.

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

Activity

- Latest data from **HMRC finds that on a seasonally adjusted basis, there was an increase in transaction volumes during November, to a total of 102,050 representing a 3.2% increase over a revised October figure** of 98,870. This brings 2019's year-to-date total to just over 1.08 million transactions, virtually unchanged over the same period in 2018. We expect that by the close of 2019 the total figure will remain in line with the total seen during 2018 of 1.19 million.
- Bank of England mortgage approval data for November also shows a slight increase over October with just under 65,000 approvals. This figure represents a 1.4% increase over the same month one year prior, and brings the **total approvals for 2019 to 721,780, a 1% increase over the eleven months to November 2018**.
- November's mortgage data from UK Finance (most recent) shows a small decline on the month across all three mortgage types: first time buyers, home movers and buy-to-let. This may have been as **buyers held back in the shadow of a looming General Election**, and data over the next two months will help clarify this. On an annual basis first time buyer mortgages are down by around 4.5% while home mover mortgages have declined by 6.5%. Interestingly, **buy to let mortgages are up by nearly 2% over the same period in 2018**.
- The **December RICS Residential market survey was markedly more positive** following the General Election result. Sales expectations rose sharply with many other key metrics finally moving into positive territory. **New buyer enquiries moved from -5% in November to +17%** in December with enquiries rising in London and the South East marking a noticeable turnaround. **Agreed sales also edged** up nationally with a reading of +9% up from -6% the previous month – the first time since May 2019 where this indicator was positive. **New instructions also moved up** while near term sales instructions strengthened to a net balance of +31%. The report goes on to say that **confidence in the market is now clear as 66% of survey participants expect residential sales prospects over the next year to improve**, up from 35% previously.
- Rightmove found that the number of **agreed sales during 2019 was down just 3% while the number of properties coming to the market had declined by 8%**.
- ARLA's latest report on the rental sector finds that **on average, supply increased slightly during November**, with letting agents managing an average of 203 properties, up from 201 in October. Conversely however **demand declined** during the usual winter slowdown, with agents finding they registered just an average of 67 new prospective tenants during the month, down from 72 in October.

HM Treasury Forecasts for the UK Economy, December 2019

(latest data)

	2019	2020	2021	2022	2023
Official Bank Rate (%)	0.76	0.72	0.82	1.07	1.26
House Price Growth (annual, %)	1.4	1.9	3.0	3.5	3.0
CPI inflation rate (annual average, %)	1.6	1.9	1.9	2.1	2.1
Unemployment rate (%)	3.9	4.1	4.0	4.1	4.0
GDP (annual, %)	1.3	1.1	1.5	1.7	1.7
Average earnings growth (annual, %)	3.6	3.3	3.2	3.4	3.5

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

Select Market Indicators, latest versus previous data

Market Indicator	Current	Previous	Direction of change
GDP monthly estimate (November 2019)	-0.3%	0.0%	↓
Retail sales volumes (monthly % change)	-0.6%	-0.6%	↔
GfK Consumer Confidence Index	-11	-14	↑
Visa UK Consumer Spending Index (annual % change)	-1.2%	-2.0%	↑
IHS Markit / CIPS Manufacturing PMI	47.5	48.9	↓
IHS Markit / CIPS Construction PMI	44.4	45.3	↓
IHS Markit / CIPS Services PMI	49.0	49.3	↓
Inflation rate	1.3%	1.5%	↓
Interest rate	0.75%	0.75%	↔
Employment rate	76.3%	76.2%	↑
Unemployment rate	3.8%	3.8%	↔
Weekly earnings growth (not incl bonuses)	3.4%	3.5%	↓
Nationwide annual house price inflation	1.4%	0.8%	↑
Halifax annual house price inflation	4.0%	2.1%	↑
Official UK House Price inflation (annual, HM Land Registry)	2.2%	0.7%	↑
Rightmove House Price Index (annual, asking price)	0.8%	0.3%	↑
HomeLet Rental Index (annual growth, UK)	3.5%	3.2%	↑
£ Sterling: \$ USD	\$1.31	\$1.31	↔
£ Sterling: € Euro	€1.17	€1.18	↓
Brent Crude (USD)	\$64.87	\$66.24	↓
Gold (USD)	\$1,556.70	\$1,475.20	↑
FTSE 100	7685.29	7540.15	↑
UK 5 YEAR GILT YIELD	0.40	0.58	↓

Sources: ONS (unless otherwise indicated) (final six indicators as at 17 January)

Official House Price data, HM Land Registry, November 2019

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
Cambridge	£470,933	3.9%	6.4%
Oxford	£431,647	3.5%	6.3%
Leeds	£189,738	0.2%	4.4%
Winchester	£434,989	2.6%	3.6%
Cambridgeshire	£300,815	1.3%	1.5%
Suffolk	£246,779	-0.6%	1.2%
West Oxfordshire	£337,857	0.5%	1.1%
Vale of White Horse	£362,906	1.4%	1.0%
Harrogate	£287,055	-1.8%	0.9%
Wiltshire	£279,508	0.3%	0.3%
Northamptonshire	£229,150	0.5%	0.2%
York	£252,272	-2.5%	-0.2%
South Oxfordshire	£404,270	-1.4%	-1.0%
Northampton	£210,459	-0.7%	-1.2%
South Cambridgeshire	£378,460	0.2%	-1.4%
West Berkshire	£348,259	-2.0%	-2.0%
Bath and North East Somerset	£333,457	-1.3%	-3.2%

Source: HM Land Registry

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
Wales	£172,574	3.5%	7.8%
West Midlands region	£204,238	1.7%	4.0%
North West	£169,362	1.1%	3.8%
Yorkshire and The Humber	£165,642	-1.0%	2.6%
East Midlands	£197,792	1.0%	2.5%
United Kingdom	£235,298	0.4%	2.2%
England	£251,222	0.3%	1.7%
North East	£130,712	0.7%	1.4%
South West	£259,758	-0.3%	1.1%
South East	£326,636	0.4%	1.0%
London	£475,458	-0.5%	0.2%
East of England	£291,281	-0.7%	-0.7%

Source: HM Land Registry

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£475,458	-0.5%	0.2%
Prime Central London	£1,065,106	-1.1%	-0.9%
South West London	£656,256	0.8%	0.8%

Source: HM Land Registry

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Camden	£862,799	6.9%	6.8%
Barking and Dagenham	£317,176	4.1%	4.9%
Haringey	£569,364	2.8%	4.5%
Tower Hamlets	£457,951	0.9%	4.4%
Hackney	£565,018	-1.6%	4.0%
Newham	£370,518	0.3%	3.6%
Greenwich	£402,347	1.3%	3.6%
Hounslow	£414,251	-0.6%	3.3%
Richmond upon Thames	£665,390	2.0%	2.7%
Hillingdon	£417,567	2.3%	2.5%
Brent	£488,680	-1.5%	2.0%
Wandsworth	£599,334	0.0%	1.9%
Lambeth	£521,270	0.5%	1.7%
Southwark	£506,990	-0.5%	1.5%
Kingston upon Thames	£498,973	1.3%	1.5%
Waltham Forest	£443,302	1.1%	0.9%
Sutton	£380,931	2.0%	0.9%
Croydon	£369,635	0.6%	0.2%
London	£475,458	-0.5%	0.2%
Hammersmith and Fulham	£731,044	0.3%	0.1%
Ealing	£482,821	-0.6%	0.0%
Enfield	£393,240	-0.5%	-0.2%
Lewisham	£413,805	-1.9%	-0.6%
Islington	£627,907	-2.8%	-1.1%
Barnet	£525,458	-0.6%	-1.7%
Harrow	£448,853	-1.1%	-2.1%
Merton	£506,805	-1.2%	-2.6%
Bromley	£433,454	-2.5%	-2.7%
Havering	£361,714	-1.7%	-2.7%
Bexley	£332,759	-1.4%	-3.4%
Redbridge	£413,676	-0.6%	-3.8%
City of London	£709,998	-14.4%	-7.1%
City of Westminster	£938,596	0.4%	-8.8%
Kensington And Chelsea	£1,191,616	-2.2%	-12.6%
Outer London	£428,009	0.0%	-0.1%
Inner London	£576,243	0.0%	0.5%

Source: HM Land Registry

Note: Boroughs in orange indicate an Inner London borough.

HomeLet Rental Index, December 2019

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
Wales	£653	3.7%	9.7%
North West	£756	4.9%	8.3%
North East	£553	2.4%	6.3%
Northern Ireland	£666	-0.1%	5.4%
East Midlands	£662	3.1%	5.2%
Scotland	£654	-1.5%	5.0%
Yorkshire & Humberside	£655	0.5%	5.0%
UK Average	£793	1.1%	3.9%
UK excluding Greater London	£953	0.6%	3.5%
South East	£1,023	1.0%	2.5%
Greater London	£1,630	-1.1%	2.1%
East Of England	£913	-0.4%	2.0%
West Midlands	£700	-0.1%	1.6%
South West	£840	0.2%	0.8%

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.

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

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