

RESIDENTIAL BRIEFING NOTE

May 2020

Market Overview

To the surprise of no one, much of this month's economic data does not look good as the country adhered to government guidelines to effectively 'shut down' and stay home. GDP declined, purchasing managers indices show falls across manufacturing, construction and the services industries while retail sales declined at their largest ever rate.

In the residential market the lack of housing transactions has meant that problems are beginning to emerge in the April house price indices as Nationwide and Halifax showed completely different trajectories for the month. Furthermore, the limited number of transactions is putting a strain on gathering meaningful data and from next month the ONS has suspended the Official House price index for April (due to be published in June). Given that restrictions on buying and selling homes were lifted from 13 May though, and transactions are expected to rise once again, the index will hopefully be back in July.

Executive Summary

- Q1 GDP figures show a decline of 2.0%, with March's contraction of -5.8% putting the most downward pressure on the quarterly data, as the COVID crisis began to take hold towards the end of that month.
- All three of April's Purchasing Managers Indices (PMI) showed steep contractions with government quarantine and social distancing guidelines effectively halting the work of many industries for the whole of the month.
- UK consumer confidence edged up to -33 in late April but remained close to its all-time low of -34 in early April (flash report). The measure was revised up mainly due to improved expectations regarding household's own financial situation and the country's economic situation going forward.
- Retail sales again fell dramatically during April, at a record rate of -18.1%. However, with some lockdown measures being lifted and retailers reopening to varying degrees during May, April is likely to be the low point.
- Although the unemployment rate itself showed a small decline in the three months to March, more timely figures began to show the impact of the Coronavirus lockdown: hours worked declined in March and vacancies in April fell at the steepest rate in over 18 years.
- Both Nationwide (3.7%) and Halifax (2.7%) showed relatively robust annual house price growth in April, while their monthly data diverged at +0.7% and -0.6% respectively, reflecting the difficulty of indexing with so few transactions taking place.
- With estate agencies shut and government guidelines not allowing the buying and selling of homes during April (now since lifted), new enquiries, new instructions and new sales all fell dramatically in the month, according to RICS' survey.

UK economic backdrop

- **Q1 GDP figures of -2.0% (quarter on quarter)** is not entirely surprising, with **March's month on month data showing a contraction of 5.8%, alone**. On a sectoral basis food and accommodation measured the largest fall, declining 9.5% during the quarter, while transport and storage fell by 4.9% and education and 'other' services declined at 4.0% and 3.9%, respectively.
- The volume **of retail sales fell by a record 18.1% during April**, following March's decline of 5.2%. Clothing and petrol sales fell by the most at a whopping 52.0% and 50.2% respectively, while the proportion of sales spent online was the highest on record at 30.7% (compared with 19.1% during April 2019). The month saw even supermarket sales fall by 2.8% while alcohol and tobacco sales rose again by 2.3%.
- **GfK released a 2nd interim flash consumer confidence** report using data gathered during the end of April and found that **the Index rose by one point over the last two weeks of the month to -33**, from -34 at the start of the month. Despite the small rise it still points to a lockdown economy that is severely depressed, although **encouragingly the Personal Financial Situation (over the next 12 months) measure increased** by three points over the two weeks, to -11. Only the measure relating to the General Economic Situation (over the last 12 months) declined while the situation over the next 12 months rose.
- **April's Manufacturing Purchasing Managers Index (PMI) pointed to the steepest month of contraction in the sector since the survey began in 1992, to 32.6**. Output, new orders, exports and employment all (not unexpectedly) fell at record pace due to the pandemic. Input cost prices also rose as a result of shortages and increased transport costs although this was partly offset by lower fuel prices and some charges being deferred or lowered by suppliers due to weak demand. On a slightly positive note, sentiment was up slightly over March's record low.
- **Unsurprisingly the UK construction sector PMI (CIPS / IHS Markit) declined spectacularly during April. As a result of on-site construction activity virtually grounding to a halt during the month, April's figure of just 8.20 points is a dramatic decline**, down from 39.3 in March and the 14-month high of 52.6 just two months ago in February. All of house building, civil engineering projects and commercial construction either declined or completely stopped during the month due to the coronavirus pandemic.
- The **UK Services sector PMI also tumbled dramatically in April, with a reading of 13.4** down from 34.5 in March. New work, employment levels and new business from abroad slumped drastically while business closures of course led to stoppages on new projects altogether, in some cases. Interestingly business sentiment rose slightly from March's record low as many providers expect operations to pick up again in the coming weeks (albeit not to 'normal' levels anytime soon).
- **Inflation continues to fall, down to 0.8% in April** from 1.5% in March, **the biggest drop since December 2008** and the lowest level of inflation since August 2016. Falling energy and fuel prices was the largest downward contributor to inflation during the month, clothing and footwear also declined, while recreation and culture placed the largest upward contribution to the rate. The ONS points out that due to the pandemic there were several goods in the 'basket' which were unavailable to consumers during April (air fares, for example) and therefore they had to make assumptions and exclusions. Even without these however, inflation has undoubtedly declined, particularly as weak demand from consumers continues.
- Headline statistics from the labour market survey in the three months to March, shows little sign of the coronavirus crisis, with the unemployment rate edging down slightly to 3.9% while official employment rate remained unchanged at 76.6%. In more timely data however (gathered through HMRC and the PAYE scheme), there was an unsurprising **fall of 1.2% of those 'receiving pay' during April 2020, compared with the same month one year ago, and a decline of 1.6% month on month. More signs that the COVID crisis has impacted the labour market however as there was a reported decline in hours worked during March, as well as a decline in the reported number of vacancies to April - the largest quarterly decrease in vacancies since the series began in 2001.**
- Wage data to March 2020 shows another decline in the pace of growth moving from 2.9% in February to 2.7% in the three months to March. Public sector annual pay growth has now outstripped private sector annual pay growth for five consecutive three-month periods with current growth of 3.3% compared with 2.7% in the finance and business services sector, and manufacturing at 1.5%.

**Click to see the [latest market indicators](#) at the end of document*

Residential property market

Sales Prices and Rents

- **April's Nationwide house price index data was, at first glance, a little perplexing as it showed strong house price growth of 3.7%** annually, the fastest pace since February 2017, and a rather punchy 0.7% rise month on month. However the bank is quick to point out that the impact of the lockdown has not been fully reflected in this month's data as the index is constructed using mortgage approval data and there is a significant lag between mortgage applications and mortgage approvals – meaning agreed house purchase prices would have been agreed in the weeks before the mortgage was formally approved. May data (if there is any) will therefore be more reflective of the lockdown pause in the housing market.
- **According to the Halifax house price index house prices continued to grow on an annual basis, at 2.7% during April**, although for the second month in a row prices fell on a monthly basis (down 0.6% compared with March). Halifax points out in their report however that given **the limited number of transactions which took place during the month it is 'challenging' to interpret** the data meaningfully and there will inevitably be a great deal of volatility.
- With yet further evidence that the housing market was off to a roaring start to 2020 before the COVID pandemic, **official ONS house price indices for March (the last one, until further notice) found house prices across the UK increased by 2.1% during March**, following another upward revision of 2.0% growth in February. On a monthly basis however prices declined slightly, by 0.2% across the UK, leading to an average UK house price of £231,855.
- London was a strong recipient of the improving housing market during the first quarter of the year as **for the first time in several years, the capital topped the house price growth chart for all regions during March, with average prices growing by 4.7% annually**. The South West followed at 4.1% and the North West at 3.4%. Just one region saw average prices decline, Yorkshire and the Humber experienced 1.0% decline on an annual basis.
- **For the second month in a row, Harrogate and Winchester are the top of the Carter Jonas location table for price growth, at robust rates of 10.3% and 8.5% respectively (year on year)**. South Cambridgeshire has also seen strong growth for the second month, with 3.8% annually, following last month's annual increase of 3.6%. This strong growth however was not mirrored across all of our locations as South Oxfordshire (-4.0%), Oxford (-3.1%) and Vale of White Horse (-2.4%) experienced annual declines.
- Turning back to London which saw 4.7% annual growth during March, and much of this was clearly dominated by not just the prime end of the market but **the inner London boroughs generally which saw average rises of 6.7%** compared with the outer boroughs which posted growth of 1.1%. March saw five boroughs posting double digit growth (year on year) topped by **Hackney at 15.1%, Kensington and Chelsea (14.6%) and Westminster (13.5%)**.
- **RICS' April residential market survey notes that the headline house price balance fell to -21% of respondents noting a decline in prices** (although with so few transactions taking place this is difficult to properly quantify), with this indicator falling even more significantly when asked about pricing in the short-term, to -72%. Looking even further ahead however and sentiment is less downbeat with a net balance of -26% of respondents expecting prices to fall in 12 month's time.
- **Rightmove's May** report finds that for the second month in a row there were not enough new properties coming to the market to accurately measure any pricing movement. Bear in mind however that their report was published on 16 May, just three days after the lifting of government restrictions on buying and selling homes. As we detail below however, the report goes on to say that the **strong levels of demand reportedly witnessed following the lifting of restrictions should support pricing levels going forward**.

**Click to see detailed [house price](#) tables*

Activity

- On 13 May, nearly seven weeks after the government virtually banned home buying activity, new regulations were announced that amended the advice to make it clear that **'people who wish to move home can do so'**, effectively opening up the housing market once again. Whilst there are still social distancing measures to adhere to, it means that the buying and selling of homes and the housing market generally can get back on its feet. This also means that April probably saw the trough of the market in terms of activity. [Carter Jonas has explored this issue, and what will help the housing market recover, in further detail in our Residential Market Outlook, which can be found here.](#)
- Also, encouragingly, from 4 May, **Land Registry announced that it has relaxed rules over electronic versions** of deeds, meaning they can be signed but scanned and sent. They further announced that **'witnessing' of signatures may be done through glass** (for example, a car window) in order to comply with social distancing guidelines. This will help ease one of the current hurdles in the sales process and going forward may make transactions quicker, particularly for those purchasing from overseas.
- Seasonally adjusted transaction figures from HMRC **shows just a very small decline to a provisional figure of 99,440 transactions across the UK, clearly yet to show any impacts from the lockdown or regulations on buying and selling homes** which were announced towards the end of the month.
- **Bank of England mortgage approvals data for March** begins to show the effects of the lockdown and the pause in the housing market. At just **56,161 mortgages approved in England during March this is nearly 25% below February's figure** and the lowest figure since 2013. Of course, the lockdown and government restrictions on buying and selling homes only affected the last quarter of March so we can expect April's data (released early June) to be much lower.
- The RICS April Residential Market Survey finds that the ongoing lockdown and government regulations which had not allowed the buying and selling of homes, stifled activity across the housing market. **Estate agencies were still closed during April and so key activity measures including new buyer enquiries (net balance of -93% contributors) and new instructions (net balance of -96% of contributors) showed their weakest readings since the survey began in 1999.** The survey found that the near-term outlook (sales levels in the coming three months) however improved over March's reading, moving from -93% in March to -57% during April. Furthermore, with government restrictions eased from 13 May, and estate agencies allowed to open, April will undeniably be the trough of the market and we expect more resilient readings in May and going forward.
- **Rightmove's May report**, whilst only published three days after the government lifted restrictions on buying and selling homes, found that **home-mover visits to their website were already back to pre-lockdown levels by Wednesday, 13 May** and that total visits were up 4% compared with the same time last year. Rightmove also reported a surge in rental demand with the highest level of enquiries since September 2019.
- April's RICS Residential survey shows the lockdown and government restrictions is also impacting the private rented sector; there was **a sharp decline in tenant demand, moving from +20% in March to -44% by April.** On the supply side, the report noted a net balance of -64% of contributors reporting a fall in landlord instructions.

HM Treasury Forecasts for the UK Economy

	2020	2021	2022	2023	2024
Official Bank Rate (%)	0.13	0.20	0.99	1.34	1.55
House Price Growth (annual, %)	-3.8	2.8	3.6	3.1	3.2
CPI inflation rate (annual average, %)	0.9	1.6	1.9	2.0	2.0
Unemployment rate (%)	7.7	5	4.1	4.1	4.1
GDP (annual, %)	-8.6	6.3	1.7	1.8	1.7
Average earnings growth (annual, %)	-0.2	2.8	3.2	3.2	3.3

Sources: HM Treasury Consensus Forecasts (May 2020)

Select Market Indicators, latest versus previous data

	Current	Previous	Direction of change
GDP quarterly estimate (Q1 2020, quarter on quarter)	-2.0%	0.0%	↓
Retail sales volumes (monthly % change)	-18.1%	-5.1%	↓
GfK Consumer Confidence Index (flash report, two weeks)	-33	-34	↑
IHS Markit / CIPS Manufacturing PMI	32.6	47.8	↓
IHS Markit / CIPS Construction PMI	8.20	39.3	↓
IHS Markit / CIPS Services PMI	13.4	34.5	↓
Inflation rate	0.8%	1.5%	↓
Interest rate	0.10%	0.10%	↔
Employment rate (to March 2020)	76.6%	76.6%	↔
Unemployment rate (to March 2020)	3.9%	4.0%	↓
Weekly earnings growth (excl bonuses) (to March 2020)	2.7%	2.9%	↓
Nationwide annual house price inflation	3.7%	3.0%	↑
Halifax annual house price inflation	2.7%	3.0%	↓
Official UK House Price inflation (annual, HM Land Registry)	2.1%	2.0%	↑
£ Sterling: \$ USD	\$1.23	\$1.23	↔
£ Sterling: € Euro	€1.12	€1.13	↓
Brent Crude (USD)	\$35.02	\$17.42	↑
Gold (USD)	\$1,750.53	\$1,696.00	↑
FTSE 100	5,996.63	5,717.34	↓
UK 5 Year Gilt Yield	0.050	0.175	↓

Sources: ONS (unless otherwise indicated) (final six indicators retrieved 20 May)

Official House Price data, HM Land Registry, March 2020

Source: HM Land Registry

Carter Jonas Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
Harrogate	£304,321	3.7%	10.3%
Winchester	£441,880	6.1%	8.5%
Somerset	£244,202	1.9%	5.7%
South Cambridgeshire	£378,293	-2.6%	3.8%
Cornwall	£238,854	0.5%	3.5%
Bath and North East Somerset	£346,379	5.1%	2.8%
Devon	£267,110	1.6%	2.6%
Suffolk	£248,021	1.2%	2.1%
Cambridgeshire	£291,313	-2.0%	1.4%
West Berkshire	£349,282	0.0%	1.4%
York	£257,398	-0.4%	1.0%
Northamptonshire	£229,200	0.0%	0.3%
Leeds	£183,707	-3.0%	0.3%
Wiltshire	£272,870	0.9%	0.2%
Northampton	£211,336	-0.4%	-0.4%
West Oxfordshire	£321,403	2.8%	-0.5%
Dorset	£285,051	-2.2%	-1.3%
Cambridge	£413,236	-8.0%	-1.6%
Vale of White Horse	£341,993	-5.2%	-2.4%
Oxford	£395,746	-4.1%	-3.1%
South Oxfordshire	£385,639	-4.0%	-4.0%

UK region	Average Price	Monthly Change (%)	Annual Change (%)
London	£485,794	1.2%	4.7%
South West	£263,360	2.0%	4.1%
North West	£166,202	0.2%	3.4%
England	£248,271	-0.1%	2.2%
East Midlands	£194,664	0.4%	2.1%
United Kingdom	£231,855	-0.2%	2.1%
South East	£323,353	0.6%	2.0%
North East	£126,945	-0.6%	1.8%
East of England	£291,254	0.0%	1.6%
Wales	£161,684	-2.8%	1.1%
West Midlands region	£195,917	-2.3%	0.4%
Yorkshire and The Humber	£159,208	-3.6%	-1.0%

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£485,794	1.2%	4.7%
Prime Central London	£1,240,557	5.7%	14.0%
South West London	£668,504	-0.8%	3.6%

Official House Price data, HM Land Registry, March 2020

Source: HM Land Registry

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Hackney	£638,683	10.9%	15.1%
Kensington And Chelsea	£1,396,102	7.0%	14.6%
City of Westminster	£1,085,013	4.0%	13.5%
Barking and Dagenham	£327,136	7.4%	11.2%
Tower Hamlets	£472,662	-0.2%	10.2%
Wandsworth	£624,858	3.2%	9.1%
Camden	£881,096	7.6%	8.9%
Greenwich	£415,693	4.0%	7.8%
Hounslow	£423,042	3.6%	7.6%
Kingston upon Thames	£506,000	3.8%	6.6%
Lewisham	£424,233	2.7%	5.7%
Lambeth	£525,487	-0.8%	5.6%
Newham	£387,326	2.6%	5.6%
Haringey	£565,343	2.5%	5.3%
London	£485,794	1.2%	4.7%
Hammersmith and Fulham	£747,174	-0.9%	4.3%
Redbridge	£418,473	-1.3%	3.3%
Barnet	£532,569	2.2%	3.1%
Harrow	£454,716	-0.6%	2.1%
Hillingdon	£417,977	3.3%	2.0%
Waltham Forest	£437,153	-1.0%	1.8%
Sutton	£377,458	1.0%	1.5%
Merton	£509,252	1.3%	0.8%
Islington	£632,270	-6.3%	0.6%
Southwark	£488,610	-3.1%	-0.3%
Bromley	£430,033	-1.5%	-1.4%
Bexley	£331,679	-0.9%	-1.5%
Havering	£352,951	-2.7%	-1.9%
Richmond upon Thames	£633,481	-4.2%	-2.0%
Enfield	£386,000	-1.3%	-2.0%
Croydon	£358,356	-3.6%	-2.5%
Ealing	£454,027	-3.0%	-2.8%
Brent	£446,966	-5.2%	-6.0%
City of London	£792,583	3.5%	-7.1%
Outer London	£424,295	-0.2%	1.1%
Inner London	£597,617	1.7%	6.7%

ABOUT CARTER JONAS

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