Carter Jonas

RESIDENTIAL BRIEFING NOTE

November 2020

Market Overview

The second lockdown in England is different to the first in three key aspects. Firstly, the housing market has been allowed to remain fully open and operating as normal, as have the construction and many manufacturing industries. Secondly, the lockdown time period is unlikely to be as long as the first time, and thirdly, just a few days into the four-week period and there have been two exceptionally promising vaccine announcements, of which the government has already announced the purchase of millions of doses. It is therefore hoped that as far as economic output goes it won't be nearly as detrimental as back in April and May. This is all the more important since the pace of monthly GDP growth has been slowing over the last couple of months and although unlikely to be as impactful, the new lockdown will certainly suppress November's economic growth.

Executive Summary

- *Q3 GDP was estimated to have grown by 15.5%, the largest quarterly expansion since records began. Despite this, September's monthly GDP figure of 1.1% is the slowest rate of growth in three months indicating a slowing pace of economic growth.*
- *All three Purchasing Managers Indices of construction, services and manufacturing continued to show expansion however all three showed a slowing pace of growth and were all down on last month's figures.*
- *Labour market data showed rising rates of redundancies with a record high of 181,000 in the three months to September, and an unemployment figure of 4.8%, up sharply from a figure of 4.0% pre-pandemic (Dec 2019 – Feb 2020).*
- *As more industries begin to bring employees back from furlough the annual growth in employee pay has subsequently strengthened, increasing to 1.9% in the three months to September, up from less than 1% last month.*
- *Interest rates were held at 0.1% although the Bank of England has pumped more money into the economy (£150 bn) as they forecast a fall in economic output during the fourth quarter of the year.*
- *House prices continued to rise throughout October with Halifax recording annual price rises of 7.5% while Nationwide found average prices rose by 5.8% over the same time last year.*
- *Rightmove also reported strong annual growth in house asking prices of 6.3% but noted that monthly asking prices declined by around 0.5%. This small decline is not unusual at this time of year, and vendors may be coming to the market with more realistic pricing to get a sale over the line before the end of the stamp duty holiday.*
- *Official ONS house price figures for September also show a strong and active market with average house prices growing by 4.7%. Monthly house price growth across the country has also been exceptionally strong with the last four months averaging 1.5% house price growth per month, the strongest consistent monthly growth since before the financial crisis in 2007.*

UK economic backdrop

- Following two consecutive quarters of contraction, **UK GDP grew by an estimated 15.5% during the third quarter (July to Sept). This is the largest quarterly expansion since records began** and of course reflects the gradual re-opening of many services and businesses following lockdown restrictions in Q2. Nevertheless, GDP is still nearly 10% below where it was prior to the pandemic and compared with the same quarter one year ago it is down 9.6%. On a monthly basis, GDP growth looks to be slowing with an estimated growth of 1.1% during September, following August's 2.1% figure.

- In October **retail sales volumes grew by 1.2%** compared with September, the sixth month in a row of growth in the sector. This means that retail volumes in October 2020 are now up 8.5% compared with pre-pandemic February volumes (excluding fuel). Looking at retail values and perhaps unsurprisingly **internet sales are up 52.8% compared with February, while in-store retail values are down 3.3%**. The ONS retail report goes on to find that in-line with below-average car traffic use, the volume of fuel sales continues to be suppressed and is yet to recover to pre-pandemic levels.

- There was **a dip in consumer confidence during October, to -31 from -25 the previous month as all sub-sectors of the index moved downwards**. The General Economic Situation over the next 12 months in particular appears to be worrying consumers as this declined 12 points while the Major Purchase Index fell by 6 points. The Personal Financial Situation scored the 'best' with a rating of zero although this too declined by one point over the previous month.

- The IHS Markit / CIPS **UK Manufacturing Purchasing Managers Index (PMI) was recorded as 53.7** in October, down only very slightly from September's reading of 54.1. This still points to **solid expansion in the manufacturing sector, for the fifth month in a row** as both output and new orders rose from domestic and overseas demand. Once again, and for the ninth consecutive month, employment fell, although business optimism reached its highest level since January 2018.

- The **Construction sector PMI was recorded as 53.1 in October, a fall from 56.8 the previous month and well below market expectations of 55.0**. This reading is also the slowest rate of expansion of the construction sector in five months. On a sectoral basis house building was the best-performing area with commercial work closely behind, while civil engineering projects contracted. New orders increased by the most since December 2015 as projects that had been delayed earlier in the year begin to kick-off again.

- The **Services PMI figure for October fell to 51.4** from a strong showing in September, of 56.1. Nevertheless, **the data still shows growth and this is the fourth successive month of above '50, indicating expansion, although the pace of growth is clearly slowing**. Interestingly, some firms cited stronger housing market transactions as increasing their demand, while others noted rising demand from clients in the construction industries. The tightening of restrictions due to the pandemic however is bound to put the brakes on services sector growth for the short-term.

- **Inflation continued to rise again last month albeit at another very slow pace moving from 0.5% in September to 0.7% during October**. On a monthly basis the largest upward contributions to **rising inflation came from clothing, food, and furniture and furnishings** where prices in these categories rose compared with last month. Clothing prices alone rose by 2.8% between September and October, compared with less than 1% between the same two months one year ago.

- The UK labour market continues to feel the crushing effects of the COVID-19 pandemic and associated restrictions; the UK **unemployment rate rose to 4.8%** in the three months to September, up from last month's figure of 4.5%. In the three months to September **redundancies also rose sharply, reaching a record high of 314,000** and reflecting a quarterly increase of 181,000 which is also a record. Of the more timely PAYE payroll records there were 33,000 fewer people in employment during October, compared with September leading to a total of 782,000 fewer payrolled employees in October compared with March 2020.

- Meanwhile **annual growth in employee pay continued to strengthen, largely off the back of more employees returning from furlough**. Conversely, those industries with still high levels of furloughed employees are still witnessing suppressed wage growth. **Growth in regular pay (excluding bonuses) increased to 1.9% in the three months to September**, up from last month's figure of 0.9%. The labour market report goes on to note that those industries most affected by furlough (accommodation and food services, and construction) saw the largest falls in pay and while both have recovered some losses, their average total pay growth is still negative at -1.8% and -3.9%, respectively.

- **Interest rates were held at 0.1%** following the Bank of England's Monetary Policy Committee meeting held on 5 November. Instead, the Bank released a further £150 bn of quantitative easing money into the economy to help support the declining output due to the pandemic. The **Bank's latest report forecasts a further fall in output during the fourth quarter of the year** before returning to moderate levels of growth during the start of 2021.

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

Residential property market

Sales Prices and Rents

- Nationwide reports a continuation of robust house price inflation during October with annual **house price growth of 5.8%**, the highest annual rate since January 2015. On a monthly basis prices rose by an average of 0.8%, slightly below last month's recorded rise of 0.9%.

- Annual **house price inflation reached 7.5% during October, according to Halifax's** latest report, once again the highest annual rate since June 2016 and above last month's strong showing of 7.3%. On a monthly basis prices were shown to have risen by 0.3%, indicating that the pace of growth is slowing as it follows September's monthly surge of 1.5%. The bank's report goes on to find that over **the last four months house prices have risen 5.3%, the strongest rate since 2006**.

- Data from the Official **ONS House Price Index for September reinforces the overall sentiment within the housing market with a figure of 4.7% annual house price growth across the UK**, and 4.9% in England. On a monthly basis average house prices across the UK were also recorded to have risen by a punchy 1.7%, hot off the heels of last month's 1.5% rise and June's monthly increase of 1.8%. All of **these monthly rises are the strongest the country has seen since 2014 and clearly indicate a fast-moving market**.

- All of the regions recorded average annual price rises during September, ranging from a 'low' of 3.3% growth in the North East to a high of 6.4% in the South West. All but two of our Carter Jonas regional locations also recorded strong annual house price growth with **South Oxfordshire recording the highest growth of our tracked areas at 8.1% annually followed by West Oxfordshire (7.8%), Bath and North East Somerset (7.2%) and Leeds (5.0%)**. Just Winchester (-1.3%) and Harrogate (-1.8%) have logged price falls.

- Turning to **London and average house prices in September grew by 4.1%** annually with both the inner and outer London boroughs recording some very strong levels of growth. **Kensington and Chelsea in particular has seen very robust levels of growth at 11.4% in September and 8.2% during August (annually)**, indicating that interest in these prime central areas of London has not waned. The capital has now enjoyed 10 straight months of annual house price gains, following nearly two years of consistent price falls.

- The October RICS Residential Market Survey once again shows a strong and growing housing market right across the country. The strong levels of activity continue to boost house prices with **a net balance of +68% of contributors witnessing price rises during October**, up from +62% last month. House prices are reported to have risen across all regions with Wales, the West Midlands, the South West and Yorkshire & the Humber in particular, reporting exceptionally strong growth. **Despite this, most respondents don't believe this level of growth will be sustained over the short- or long-term** with a balance of +13% and +8% (respectively) anticipating growth.

- According to Rightmove's latest report the **average asking price of property coming to the market continues to rise and is now 6.3% higher than the same time last year. On a monthly basis however asking prices dipped by an average of 0.5%**, coming as a surprise to some given the current 'mini-boom' that the housing market is experiencing. Nevertheless, asking prices do tend to drop at this time of year and it is possible that sellers are now trying to price their properties more realistically in order to get a sale done by the stamp duty deadline of 31st March 2021.

- Across the private rental market, the latest October report from HomeLet notes that the **average UK rent is down 1.3% on a monthly basis but up by an average of 2.2% over last year**. On a regional basis Greater London is the only area where rents have declined annually, by around 3.7% so when London is excluded from the overall average, annual rents have risen by 4.2%. Rents rose the most across the South West at 6.1% followed by the East Midlands (5.6%) and Wales (5.5%). **October marks the fifth consecutive month where rents have declined in London, reflecting that the lettings market in the capital is struggling with the wider implications that the COVID pandemic has inflicted**.

- The two-speed rental market is also reflected in the latest Hometrack Rental Report for Q3 2020. Hometrack found that annual **rents outside of the capital rose by an average of 1.7% during the quarter, while rents in London declined by -5.2%** annually, during the same period. The recent changes to working and commuting patterns will be partly responsible for the declining demand across London. On the other hand, rental growth in the regional areas is largely underpinned by declining supply as landlords long been retreating from the buy to let market, for at least four years now since the additional 3% stamp duty was introduced.

Activity

- Mortgage approvals across England climbed again during September, according to **Bank of England's latest dataset – at 91,454 approvals this is again the highest monthly figure since just before the financial crisis in 2007 and beats last month's 13-year record by nearly 10%**. On an annual basis, mortgage approvals are starting to 'catch up' to last year's total with approvals now just 13% behind where they were at the same point last year.
- **Property transactions have now reached pre-restriction monthly levels as September recorded over 98,000 residential transactions**, according to HMRC. This marks an increase of 21% over August's figure and over double the amount that was recorded during April and May when the buying and selling of homes was heavily restricted across England.
- October's RICS Residential Market Survey found a net balance of +42% of respondents reporting an increase in new buyer enquiries for the fifth month in a row, while **+32% report a rise in new instructions, which RICS reports is the longest uninterrupted sequence of growth in new listings** since 2013. As a consequence, stock levels are up in estate agents across the country with an average of 43 homes per branch. Agreed sales are also rising, with +41% of contributors reporting an increase. **Over the coming three-months respondents remain 'modestly positive' with sales expectations at +17% while conversely over the 12-month horizon the sentiment is much more downbeat as -27% of contributors believe sales will weaken**.
- Rightmove's latest report found that buyer demand and activity to their website dipped slightly when the lockdown measures (lockdown 2.0) were reintroduced early November as many were unsure whether the housing market would remain open. Nevertheless, activity was still nearly a third more than the same period last year and following the initial **drop demand bounced back to being 49% above the same time last year**, once buyers and sellers realised the market would remain open. On a regional basis, the property portal finds that the **southern areas are performing the best relative to last year, with the number of agreed sales up 72% across the East of England and 69% in the South East**, which compares with a national figure of 50%.
- **Tenant demand in the lettings market continued to pick up** in three months to October, according to the latest RICS market survey. This is the second quarter in a row where demand has risen, while at the same time **the volume of new landlord instructions fell** with a net balance of -8% of participants marking a fall.
- **Staying with the lettings market, and according to Arla Propertymark's latest report (September) demand for rental properties appears to be stabilising and is reportedly now back to 'pre-Covid' levels**. Further, their report notes that the number of new prospective tenants is down to an average of 82 per branch, following a record 101 the previous month. Meanwhile **supply looks to be tightening** again as the average number of properties managed per branch fell to 193, down from the record high of 208 in August.

HM Treasury Forecasts for the UK Economy, November 2020

	2020	2021	2022	2023	2024
Official Bank Rate (%)	0.10	0.20	0.53	0.78	0.93
House Price Growth (annual, %)	+0.7	-1.4	0.9	3.0	3.9
CPI inflation rate (annual average, %)	0.6	2.1	2.2	2.1	2.1
Unemployment rate (%)	6.1	7.2	6.1	5.1	4.7
GDP (annual, %)	-11.0	4.8	4.3	2.5	2.1
Average earnings growth (annual, %)	0.4	2.3	2.7	3.3	3.5

Sources: HM Treasury Consensus Forecasts (2020 and 2021: November 2020; 2022–2024: November 2020)

Select Market Indicators, latest versus previous data

	Current	Previous	Direction of change
GDP quarterly (quarter-on-quarter)	15.5%	-19.8%	↑
Retail sales volumes (monthly % change)	1.2%	1.5%	↓
GfK Consumer Confidence Index	-31	-25	↓
IHS Markit / CIPS Manufacturing PMI	53.7	54.1	↓
IHS Markit / CIPS Construction PMI	53.1	56.8	↓
IHS Markit / CIPS Services PMI	51.4	56.1	↓
Inflation rate	0.7%	0.5%	↑
Interest rate	0.10%	0.10%	↔
Employment rate (to August 2020)	75.3%	75.6%	↓
Unemployment rate (to August 2020)	4.8%	4.5%	↑
Weekly earnings growth, regular pay (excl bonuses)	1.9%	0.9%	↑
Nationwide annual house price inflation	5.8%	5.0%	↑
Halifax annual house price inflation	7.5%	7.3%	↑
Official UK House Price inflation (annual)	4.7%	3.0%	↑
Rightmove House Price Index (annual, asking prices)	6.3%	5.5%	↑
HomeLet Rental Index (annual growth, UK)	2.2%	2.1%	↑
£ Sterling: $ USD	$1.32	$1.30	↑
£ Sterling: € Euro	€1.12	€1.10	↑
Brent Crude (USD)	$44.14	$42.26	↑
Gold (USD)	$1,883.81	$1,902.87	↓
FTSE 100	6,344.54	5,900.81	↑
UK 5 Year Gilt Yield	0.009	-0.075	↓

Sources: ONS (unless otherwise indicated) (final six indicators retrieved on 18 November)

Official House Price data, HM Land Registry, September 2020

Sources: HM Land Registry

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
South Oxfordshire	£451,968	1.1%	8.1%
West Oxfordshire	£351,995	2.7%	7.8%
Bath and North East Somerset	£362,432	4.4%	7.2%
Leeds	£198,697	1.1%	5.0%
Somerset	£248,357	2.5%	4.3%
Oxford	£433,036	0.9%	3.8%
Devon	£274,089	2.8%	3.8%
Dorset	£296,639	2.5%	3.5%
Cornwall	£245,867	1.6%	3.5%
Wiltshire	£285,560	2.2%	3.4%
Northamptonshire	£234,960	1.1%	3.1%
Suffolk	£252,179	1.5%	2.7%
Cambridgeshire	£300,764	1.7%	1.9%
York	£263,600	1.9%	1.7%
West Berkshire	£351,132	2.6%	1.6%
South Cambridgeshire	£386,333	1.8%	1.5%
Vale of White Horse	£367,056	2.0%	1.5%
Northampton	£216,066	0.2%	1.1%
Cambridge	£443,362	0.0%	0.3%
Winchester	£417,358	-1.7%	-1.3%
Harrogate	£284,204	-0.6%	-1.8%

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
South West	£275,376	3.3%	6.4%
North West	£176,976	1.2%	6.0%
Yorkshire and The Humber	£174,450	1.2%	5.4%
East Midlands	£204,581	0.5%	5.0%
England	**£261,795**	**1.6%**	**4.9%**
East of England	£305,764	2.6%	4.8%
United Kingdom	**£244,513**	**1.7%**	**4.7%**
London	£496,485	0.8%	4.1%
South East	£336,763	1.4%	4.0%
West Midlands region	£208,497	1.3%	4.0%
Wales	£170,604	-1.9%	3.8%
North East	£136,262	2.8%	3.3%

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£496,485	0.8%	4.1%
Prime Central London	£1,135,730	-1.8%	6.7%
South West London	£695,016	1.7%	5.1%

Official House Price data, HM Land Registry, August 2020

Sources: HM Land Registry

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Kensington And Chelsea	£1,346,456	-0.1%	11.4%
Hackney	£622,731	7.3%	9.1%
Islington	£709,451	1.0%	8.5%
Ealing	£506,143	3.6%	7.2%
Waltham Forest	£461,727	2.0%	6.9%
Richmond upon Thames	£689,675	-1.5%	6.6%
Lambeth	£552,828	2.4%	6.6%
Hammersmith and Fulham	£779,570	5.6%	6.4%
Redbridge	£432,138	2.0%	4.8%
Enfield	£404,442	1.4%	4.6%
Haringey	£579,049	1.1%	4.3%
Croydon	£381,139	1.4%	4.2%
London	£496,485	0.8%	4.1%
Brent	£522,324	5.1%	4.0%
Merton	£535,326	0.2%	3.9%
Sutton	£386,214	1.8%	3.9%
Newham	£382,662	1.0%	3.7%
Lewisham	£432,541	2.8%	3.2%
Bexley	£343,470	-1.3%	3.2%
Southwark	£520,771	2.8%	3.2%
Havering	£377,665	0.4%	3.1%
Wandsworth	£615,803	0.6%	2.2%
City of Westminster	£925,004	-4.2%	2.1%
Hillingdon	£410,984	0.2%	1.8%
Harrow	£460,215	0.3%	1.7%
Barnet	£535,340	2.3%	0.8%
Bromley	£445,219	1.3%	0.8%
Greenwich	£406,033	4.0%	0.6%
Hounslow	£408,632	-0.4%	0.0%
Kingston upon Thames	£502,407	0.1%	-0.1%
Barking and Dagenham	£303,389	-0.7%	-0.5%
City of London	£793,046	-0.4%	-1.3%
Tower Hamlets	£437,574	-2.4%	-2.8%
Camden	£813,155	-1.5%	-5.7%
Outer London	**£438,671**	**1.2%**	**3.0%**
Inner London	**£595,668**	**1.2%**	**3.3%**

HomeLet Rental Index, October 2020

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
South West	£892	-1.1%	6.1%
East Midlands	£678	0.0%	5.6%
Wales	£657	1.1%	5.5%
North West	£764	-0.8%	5.1%
UK (excluding London)	**£821**	**-0.8%**	**4.2%**
East of England	£961	-0.6%	4.0%
West Midlands	£733	-1.9%	3.8%
Yorkshire & Humberside	£675	0.3%	3.4%
South East	£1,053	-2.0%	3.2%
Scotland	£693	1.5%	2.8%
UK	**£974**	**-1.3%**	**2.2%**
North East	£546	-2.2%	1.5%
Greater London	£1,603	-2.6%	-3.7%
Greater London	£1,646	-0.4%	-2.8%

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.

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