Carter Jonas

RESIDENTIAL BRIEFING NOTE

August 2020

Market Overview

There is a clear and ongoing recovery taking place in many sectors of the economy, and indeed GDP growth of 8.7% in July points to a resumption of activity across many areas. The various Purchasing Managers Indices (a good indication of the current market situation) show expansion across all three of the largest business sectors while consumers, although still wary of face to face shopping, are remaining reasonably confident as spending continues to increase.

The housing market has been exceptionally buoyant following the easing of lockdown restrictions; pent-up demand during lockdown, coupled with the recently announced stamp duty holiday has ushered in weeks of strong demand and increased supply and led to higher-than-expected sales levels.

However, headline employment data is still not showing the full effects of lockdown as the furlough scheme is undoubtedly masking the real impact on businesses. As the scheme winds down over the coming weeks and months and we see a further increase in activity the employment and wage data will lay bare the potential longer-term damage to the economy.

Executive Summary

- *The UK officially entered recession with a -20.4% drop in GDP during the second quarter. Nevertheless, the next few months should see a strong rise in GDP as more goods and services return to normal levels following lockdown easing.*
- *All three Purchasing Managers Indices rose strongly during July but in each case employment levels fell and optimism was still restrained as many are unsure of what the recovery phase will look like over the coming six to twelve months.*
- *Consumer confidence remained steady during July, and with a lack of spending during the last few months many consumers were able to increase their savings, leading to stronger confidence in their own personal financial situation going forward.*
- *Retail sales increased again during July with sales volumes now 3.0% above their pre-pandemic levels, from February 2020.*
- *Headline employment and unemployment data remained unchanged again this month but the timelier PAYE data showed another decline meaning there are now 730,000 fewer employed than pre-pandemic.*
- *The furlough scheme is again keeping its thumb firmly on wage and earnings growth as nominal pay growth moved into negative territory for the first time since records began in 2001.*
- *July saw a marked change in the Halifax and Nationwide house price indices with both indicating strong monthly rises, at 1.6% and 1.7%, respectively. Both banks cite a notable increase in activity following the Stamp Duty holiday announcement in early July.*
- *The ONS Official House Price Index returned in August, with data up to and including end of April 2020 showing annual price growth of 2.6%. Given the lag between house purchase and completion April data reflects agreements which took place before government lockdown measures were introduced.*

UK economic backdrop

- **June's month on month GDP rise of 8.7% was punchy but still not enough to stave off the UK entering an official recession with Q2 GDP having fallen by a steep 20.4%** (quarter on quarter). Nonetheless, this recession is not following the same path as past economic downturns and in many ways we are already climbing well out of it ; the low point was between February and April and once other shops and services began reopening during June spending clearly picked up. Although output levels are still below pre-pandemic levels and it will be some time before all the ground lost during lockdown, is fully recovered.

- **In July retail sales volumes increased by 3.6% compared with June**, meaning sales are now 3.0% above pre-pandemic levels in February. This rise was driven largely by a nearly 12% increase in clothing sales, as physical shops began to reopen. Indeed the ONS data found that the share of online retailing fell by 7% month on month as shoppers began to return to the high street, but this completely contradicts other data from Visa's index, below and so we await more data as the month's go on to determine just what the 'new' shopping patterns will be, if any.

- **Consumer confidence held steady during July**, marking no change over June's figure of -27, and indicating little in the way of change in consumer 'mood' as lockdown measures may have eased but confidence may take longer to return. Of the five sub-indicators three increased slightly during the month with the Personal Financial Situation (looking forward) encouragingly rising the most from -3 in June to 0 in July. The report notes that **the rise in consumers who were able to increase their savings during lockdown may be at play in improving how we feel about our own personal finances.**

- Overall **consumer spending rose by an encouraging +2.4% in July,** compared with the same month one year ago, according to Visa's Consumer Spending Index. This was the first increase since February and the fastest rate of growth since December 2016. Somewhat worryingly for the high street however **was face to face spending which fell by 6.9%** so it was only online / eCommerce spending which fuelled the rise as this increased by 16.2% annually. On a sectoral basis, consumers are still clearly reluctant to go out as spending on transport, hotels, restaurants, and recreation fell with transport alone dropping nearly 17% over the same period last year. On the other hand, household goods spending rose by 28% followed by purchases of food and beverage which grew by 21%.

- The UK **Manufacturing Purchasing Managers Index (PMI) points to the strongest pace of expansion in the sector in over a year at 53.3**, up from June's 50.1 reading. Output growth, accelerated quickly, rising at its fastest rate since October 2017 while new orders also rose by the most in over two years. Disappointingly however employment continued to fall, for the sixth month in a row.

- For the second month in a row The IHS / CIPS UK **Construction PMI rose markedly, up to 58.1 from 55.3 last month. This is the steepest rate of expansion in the industry in almost five years** with residential activity accelerating the most. Respondents to the survey reported a boost in sales following the easing of lockdown measures and the start of work on site. As in the manufacturing industry however employment levels contracted again and business confidence is only moderate compared to last month's robust levels due to rising concerns over the longer-term economic outlook. Some respondents report a lack of new orders to replace the projects that are currently underway but due to complete.

- Meanwhile the r**eopening of bars and restaurants during July finally buoyed the Services PMI out of contraction moving from 47.1 in June to a hefty 56.5 this month**. New business volumes increased for the first time in five months however again employment fell at a steep rate once again. **Respondents to the survey also expressed concern that lockdown measures may be reintroduced at later dates and that we are only in a 'partial recovery', meaning that optimism is subdued in the sector**.

- **There was an unexpected rise in inflation during July, up to 1.0%** from last month's 0.6%, and above consensus forecasts of 0.6%. The largest upward contributions came from clothing, petrol and furniture and household goods while falling food prices led to small downward pressure during the month. Most analysts still believe that the VAT cut in the hospitality/ tourism sector from 15 July (not captured in this month's data), coupled with the 'Eat Out and Help Out' scheme in August, will put heavy downward pressure on prices. And so we repeat what we said last month that **in the short term we are probably headed for a period of deflation,** but it is just these schemes which are aimed at getting people to spend money and increase activity so it is **not something that the Bank of England will be particularly concerned with** if it lasts just a couple of months.

- Yet again the latest labour market data shows that the government furlough scheme is still cushioning the impact, with headline employment and unemployment figures remaining unchanged again to June, at 76.4% and 3.9%, respectively. However, looking more closely and at more timely data and the evidence is pointing to a bumpy ride ahead. The **number of part-time workers for instance decreased by a record rate** of 377,000 over the same period last year, and **there were 238,000 fewer self-employed** as compared with the previous three months, while the **PAYE employment data showed employment fell by 114,000 in July** making a cumulative fall of 730,000 since March.

- Meanwhile data from employee pay and earnings finds that **growth is still being impacted by lower pay for furloughed employees and reduced bonuses.** Total pay (including bonuses) fell by 1.2% and regular pay (excluding bonuses) declined by 0.2%, both figures being **negative for the first time since records began in 2001.** The report notes that the sectors with the highest percentage of furloughed employees (wholesale, retail, hotels, restaurants and construction) showed a slight improvement in pay growth for June compared with April and May as their sectors began returning to work as lockdown restrictions eased during June.

- The Monetary Policy Committee voted unanimously to hold interest rates at 0.10% and not changing the current quantitative easing (QE) strategy. Some analysts continue to feel the MPC might expand QE further by autumn and indeed this may be the case if the economy fails to rebound by as much as is hoped. However, interest rates are likely to stay at 0.10% for some time, and indeed the Committee noted they were unlikely to move rates into negative territory.

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

Residential property market

Sales Prices and Rents

- **House price growth rebounded in July according to Nationwide, with annual prices increasing by 1.5% compared to July 2019, and monthly prices up 1.7**% following June's decline of 1.6%. Given how swift the markets are moving right now it is perhaps more significant to look at monthly data, and in this instance the 1.7% rise indicates a rather robust market given all that has gone on over the last five months. The stamp duty holiday announced on 8 July has undoubtedly played a significant part in increasing activity and we expect this to support transaction levels at least during the near term.

- The **Halifax house price index also reports a 'mini-boom' currently driving house prices up, with annual price growth during July up 3.8% and a monthly change of 1.6%**. The bank reports that pent up demand continues to filter through the market but with **supply levels still constricted this is continuing to put upward pressure on prices.**

- The **Official House Price Index returned, with data up to April 2020* showing annual price growth of 2.6%, following an upwardly revised March annual figure of 3.5%**. The strong revision during March followed by a rather punchy April figure indicates that the housing market was indeed in strong stead prior to the pandemic and lockdown. On a monthly basis house prices declined by 0.2% in April. (*The 6 to 8 weeks lag between house purchase and completion / registration explains why there were enough transactions during April for the house price index to accurately reflect the market at the time. May, June and July data may tell a different story).

- Across our Carter Jonas locations there was a variety of price growth but the average across all our 21 locations was 3.2%. **Cambridge recorded a hugely punchy high of 18.6%, the strongest growth in this area since 2015**, although this area suffers notoriously from volatility so caution must be taken until a longer trend is recognised. Cambridgeshire as a whole saw price growth of 5% while other areas across the South East also saw some strong growth including South Oxfordshire (7.6%), Vale of White Horse (7.5%) and Oxford (4.6%).

- Across the London boroughs there were just three locations which noted house price falls in April (annually), with the majority of areas witnessing price rises, including 12 which saw greater than 5% annual increases. Indeed, for the first time since December 2017, the Outer London boroughs recorded above 2% house price growth, as April saw average price rises in these areas of 3.3%.

- **July's RICS UK Residential Survey** notes that market sentiment has certainly turned a corner as it reports that **house price growth moved out of negative territory for the first time since March. With a net balance of +12% of respondents reporting an increase in house prices** during the month this is markedly more upbeat than the -13% reported in June. The publication goes on to say that all but one region reported price growth, with London being the exception where a net balance of -10% of respondents cited declining prices. Looking further ahead and positivity looks set to continue with +8% of contributors anticipating price rises over the next 12 months.

- Data from **Rightmove finds that the normal seasonal lull at this time of year has been virtually reversed and average asking prices are up by a robust 4.6%** annually in August, following last month's rise of 3.7%. Although on a monthly basis the site showed a small decline of 0.2% nationally, this is largely due to London's more seasonal fall of 2.0% during the month.
- Average rents rose by 0.6% annually across the UK, according to HomeLet's July lettings report, as **the month saw rental prices increase in all twelve of the regions monitored. However, for those in London and across the South East there is a distinct downward trend emerging in the annual data**. These were again the only two regions to see yearly falls of 3.2% and 1.8% respectively, and for the second month in a row. These two areas can be very strongly dependent upon the overseas and international student market and until certainty returns and international travel opens up with even more confidence, they may struggle to see demand return to more 'normal' levels.
- The RICS Residential Survey noted a strong return to rental growth expectations in the coming months with +20% of respondents expecting rises over the short term (compared with -35% previously) and an expected 1% rise in rents over the coming 12 months.

Activity

- As expected, **there was a substantial rise in mortgage approvals during June according to the Bank of England**, with approvals moving from just over 9,200 in May to 40,010 in, a rise of over 330%. On an annual basis however, approvals were still around 35% below where they would normally be at that time of year. Nevertheless, we expect the coming months to show yet more rises as pent up demand filters into the data, combined with the stamp duty holiday which has enticed more people back to the market.
- Recorded residential **property transactions increased again during July compared with June to 70,710, a monthly increase of 15%** and 68% above the bottom of the market, in April 2020. While the Stamp Duty holiday was announced in July, we will not see the start of this impact on recorded transactions until late August or early September; HMRC data is recorded when a property transaction completes and stamp duty on the property, is paid.
- The July RICS UK Residential Survey finds that **residential sales activity rose yet again during the month, with the Stamp Duty holiday likely playing a large part in driving demand**. +75% of respondents found an increase in new buyer enquiries during the month, with +59% of contributors reporting a rise in new instructions and +57% in agreed sales. All of these figures were up on already quite strong June data and rises were noted in all areas of the UK. More pessimistically however **the longer-term expectation for agreed sales is negative as -10% of respondents expect sales to tail off** once the furlough scheme is phased out in October and the Stamp Duty holiday ends in March next year.
- Supply and demand might be finally intersecting at a crucial time as **Rightmove reports** that there have been more homes put on the market and more agreed sales over the last month than at any other time for over ten years. In detail the site says that **agreed sales are up 20% over the previous high while the site saw the highest number of properties coming to the market since March 2008**. Their report cautions though that as activity increases there are processing delays down the line meaning that moving from agreed sale to completion and exchange may be taking longer than usual.
- In the lettings market the RICS survey noted a recovery in tenant demand over the three months to July with an encouraging +35% net balance, compared with -44% in the previous quarter. On the supply side **+6% of contributors reported an increase in landlord instructions, the first time since 2016 that this figure has been in positive territory**.

HM Treasury Forecasts for the UK Economy, August 2020

	2020	2021	2022	2023	2024
Official Bank Rate (%)	0.11	0.30	0.99	1.34	1.55
House Price Growth (annual, %)	-1.4	2.2	3.6	3.1	3.2
CPI inflation rate (annual average, %)	1.0	2.1	1.9	2.0	2.0
Unemployment rate (%)	8.3	6.6	4.1	4.1	4.1
GDP (annual, %)	-10.1	6.5	1.7	1.8	1.7
Average earnings growth (annual, %)	0.6	2.3	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 quarterly (Q2, quarter on quarter)	-20.4%	-2.2%	↓
GDP monthly (June, month-on-month)	8.7%	1.8%	↑
Retail sales volumes (monthly % change)	3.6%	13.9%	↓
Visa's UK Consumer Spending Index (expenditure, y-o-y)	2.4%	-6.5%	↑
GfK Consumer Confidence Index	-27	-27	↔
IHS Markit / CIPS Manufacturing PMI	53.3	50.1	↑
IHS Markit / CIPS Construction PMI	58.1	55.3	↑
IHS Markit / CIPS Services PMI	56.5	47.0	↑
Inflation rate	1.0%	0.6%	↑
Interest rate	0.10%	0.10%	↔
Employment rate (to June 2020)	76.4%	76.4%	↔
Unemployment rate (to June 2020)	3.9%	3.9%	↔
Weekly earnings growth, regular pay (excl bonuses)	-0.2%	0.7%	↓
Nationwide annual house price inflation	1.5%	-0.1%	↑
Halifax annual house price inflation	3.8%	2.5%	↑
Official UK House Price inflation (April 2020)*	2.6%	3.5%	↓
Rightmove House Price Index (annual, asking prices)	4.6%	3.7%	↑
HomeLet Rental Index (annual growth, UK)	1.5%	2.0%	↓
£ Sterling: $ USD	$1.32	$1.26	↑
£ Sterling: € Euro	€1.11	€1.10	↑
Brent Crude (USD)	$45.06	$42.75	↑
Gold (USD)	$1,990.04	$1,816.99	↑
FTSE 100	6,071.62	6,260.66	↓
UK 5 Year Gilt Yield	-0.055	-0.084	↓

Sources: ONS (unless otherwise indicated) (final six indicators retrieved 19 August)

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

Sources: HM Land Registry

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
Cambridge	£503,761	13.1%	18.6%
South Oxfordshire	£439,479	7.2%	7.6%
Vale of White Horse	£373,891	5.6%	7.5%
Cambridgeshire	£303,542	2.9%	5.0%
South Cambridgeshire	£381,336	1.2%	5.0%
Oxford	£417,335	3.2%	4.6%
Cornwall	£236,659	-1.0%	3.6%
Northamptonshire	£235,859	2.1%	3.5%
West Oxfordshire	£330,257	1.2%	3.3%
York	£262,275	1.4%	2.8%
Devon	£263,560	-0.7%	2.6%
Somerset	£236,852	-1.5%	2.3%
Dorset	£296,274	3.0%	2.3%
Leeds	£185,741	-0.4%	2.2%
Wiltshire	£275,030	0.7%	1.8%
Bath and North East Somerset	£341,945	0.9%	1.3%
Winchester	£409,865	-3.0%	0.6%
Northampton	£212,550	0.5%	0.1%
Suffolk	£239,502	-1.0%	-0.9%
West Berkshire	£342,584	-0.1%	-1.6%
Harrogate	£265,779	-8.7%	-4.0%

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
Wales	£169,489	0.6%	5.0%
East Midlands	£200,513	1.1%	4.7%
North West	£167,809	-0.2%	3.4%
West Midlands region	£202,093	0.4%	3.4%
South East	£327,413	0.2%	2.7%
East of England	£295,640	1.5%	2.7%
United Kingdom	**£234,612**	**-0.2%**	**2.6%**
England	**£250,874**	**-0.3%**	**2.5%**
London	£480,425	-1.6%	2.3%
Yorkshire and The Humber	£165,561	-0.1%	2.3%
South West	£255,891	-2.5%	1.2%
North East	£125,938	-2.4%	-2.3%

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£480,425	-1.6%	2.3%
Prime Central London	£1,191,720	1.1%	5.4%
South West London	£670,104	-0.3%	4.3%

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

Sources: ONS / HM Land Registry

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
City of London	£867,841	2.7%	17.4%
Islington	£706,263	5.4%	13.8%
Tower Hamlets	£480,984	-0.2%	11.2%
Ealing	£502,107	4.9%	8.8%
Redbridge	£435,763	2.1%	8.5%
Richmond upon Thames	£683,248	3.7%	6.9%
Kensington And Chelsea	£1,348,951	0.3%	6.8%
Croydon	£386,738	4.3%	6.3%
Camden	£870,627	0.1%	6.0%
Merton	£529,857	4.0%	5.7%
Havering	£378,747	3.9%	5.5%
Wandsworth	£607,227	-1.2%	5.1%
Southwark	£508,543	0.7%	4.5%
Harrow	£465,958	2.1%	4.4%
City of Westminster	£1,034,488	2.0%	4.1%
Haringey	£547,124	-0.6%	3.3%
Barnet	£526,553	-0.2%	2.8%
Bromley	£443,482	2.0%	2.7%
Lambeth	£513,397	-1.6%	2.7%
Sutton	£376,808	0.0%	2.4%
London	£480,425	-1.6%	2.3%
Bexley	£346,840	2.2%	2.2%
Greenwich	£389,920	-3.6%	2.2%
Waltham Forest	£440,354	0.4%	1.9%
Enfield	£400,695	1.4%	1.7%
Brent	£494,455	7.2%	1.7%
Hammersmith and Fulham	£719,836	-3.1%	0.8%
Kingston upon Thames	£477,450	-2.2%	0.7%
Hounslow	£396,030	-3.8%	0.2%
Hillingdon	£405,066	-1.8%	0.1%
Lewisham	£400,987	-3.2%	0.0%
Newham	£356,915	-6.0%	-2.7%
Hackney	£551,629	-6.0%	-3.6%
Barking and Dagenham	£283,139	-6.9%	-4.2%
Outer London	**£431,880**	**1.0%**	**3.3%**
Inner London	**£584,234**	**-1.3%**	**3.8%**

**In May, the ONS suspended the Official House Price Index until further notice. On 19 August, the publication resumed with current figures up to April 2020. To return to their normal schedule they are releasing monthly figures every two weeks between now and October 2020.*

HomeLet Rental Index, July 2020

Region	Average Price	Monthly Change (%)	Annual Change (%)
North West	£773	2.0%	6.5%
Yorkshire & Humberside	£670	1.8%	4.5%
South West	£876	2.1%	2.5%
Scotland	£692	0.0%	1.9%
UK (excluding Greater London)	**£808**	**1.4%**	**1.8%**
West Midlands	£721	1.0%	1.7%
East Midlands	£656	0.8%	1.5%
North East	£535	1.9%	1.1%
East of England	£932	1.6%	0.8%
UK Average	**£965**	**1.5%**	**0.6%**
Northern Ireland	£674	2.3%	0.4%
Wales	£638	0.3%	0.2%
South East	£1,034	1.2%	-1.8%
Greater London	£1,611	1.8%	-3.2%

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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