

RESIDENTIAL BRIEFING NOTE

October 2020

Market Overview

In a month that has seen increasing cases of COVID-19, a tightening of local restrictions across the UK and a new three-tier system of alert with varying levels of constraints, it is not hard to imagine that the economic progress we had been experiencing following the first lockdown, may again ease. Indeed, this may have already begun as August's GDP figure of 2.1% was below expectations and well below July's figure of 6.6% monthly growth. This is further reflected in Deloitte's latest Chief Financial Officer Survey where CFO's ranked the COVID-19 pandemic as top of their concerns, followed by geo-political issues, with Brexit now in third place. What's more, those surveyed are bracing for even more challenging times ahead as they are finding an easing in the post-lockdown surge in activity, particularly now that COVID-19 numbers are increasing again.

In contrast, the housing market continued full steam ahead over the last five weeks, breaking record after record: there were more mortgages approved during August in England than at any time since before the financial crisis in 2007, Rightmove reports the lowest 'average days on the market' figure at 50 days, while also registering the highest number of sales ever agreed in one month, and the two major house price indices at Halifax and Nationwide reported the strongest levels of annual house price growth since 2016. Admittedly, this high rate of activity and price growth will likely ease, particularly as we move into the winter months, but it is further evidence that months of lockdown and restrictions have changed household preferences and priorities, while the stamp duty holiday is clearly encouraging household to move on or move up.

Executive Summary

- *August's GDP figure of 2.1% was below market expectations and shows that the pace of economic growth is slowing.*
- *Once again, this month the Purchasing Managers Indices tell a story of expansion across all the three major industries of construction, manufacturing, and services. The services sector figure declined slightly but this was due to the Eat Out to Help Out scheme coming to a close at the end of August.*
- *The unemployment rate rose to 4.5% in the three months to August, the highest level in over three years. Those registered on payroll finally rose slightly during September although there are still over 600,000 fewer people registered on UK PAYE compared with March 2020.*
- *Regular pay rose by 0.8% in the three months to August. However those in industries most affected by the furlough schemes (retail, hospitality, and construction) are still recording negative pay growth, although the pace of decline has slowed.*
- *The housing market continues to show strong levels of activity and price growth as both Halifax and Nationwide recorded their highest annual house price rises in over three years during September at 7.3% and 5.0%, respectively. Halifax went on to report they had the highest number of mortgage applications over the last three months since 2008.*
- *The Official House Price Index recorded 2.5% annual growth during August. 2020 has been particularly good for the London housing market, which has now experienced nine months of price growth, following nearly two years of declining prices.*

UK economic backdrop

- **August's GDP figure of 2.1%** monthly expansion shows the economy continues to grow but this figure was below market expectations and comes despite the government's Eat Out to Help Out scheme. What's more, the pace of growth is slowing and **overall GDP is still 9.2% lower than it was in February 2020**, before the pandemic took hold. The breakdown of the components of growth showed the construction sector grew the most at 3.0% in August, while the services sector grew by 2.4%, manufacturing at 0.7% and production at just 0.3%.
- In September retail sales volumes increased by 1.5% compared with August, according to the latest data from the ONS. **This is the fifth consecutive month of retail expansion and means volumes are up 5.5% compared with pre-pandemic levels** in February 2020. Food store sales were still growing strongly through September as people continue to curtail visits to pubs, bars and restaurants. Non-food store retailers meanwhile have also seen growth with the sale of household items such as DIY, furniture and garden items all growing strongly.
- **GfK's consumer confidence index increased two points to -25 in September, meaning confidence has improved for four months** in a row although this compares with a reading of -12 just one year ago. The General Economic Situation sub-indices both forward and backward looking remain the lowest at -38 and -61 respectively, while the sub-index rating Personal Financial Situation over the next 12 months rates strongest at +1.
- The latest **Manufacturing Purchasing Managers Index (PMI) reading points to the fourth consecutive month of growth**, the longest since early 2019. The September reading of 54.1 is slightly below last month's but still indicates expansion of the sector with **strong inflows of new work reported as companies and staff return to work in greater numbers**. Job losses however were reported again, marking the eighth month in a row of declining job numbers although the pace of decline is slowing.
- **September's Construction sector PMI (IHS Markit / CIPS) shows further expansion during the month with a reading of 56.8** up from 54.6 during August. Anecdotal evidence suggests that expansion is driven by improved demand during the month while new orders rose for the fourth time in as many months. Activity was boosted by the residential and commercial construction sectors while civil engineering work fell again this month. Employment continues to fall although the rate of contraction has now slowed to the slowest pace in seven months.
- **The Services sector continues to indicate expansion with a PMI reading of 56.1** during September, although this is down from August's five-year high of 58.8 and is the weakest level for three months. New business growth slowed, likely a result of the end of the Eat Out to Help Out scheme while at the same time increased restrictions on activity were imposed by the government at both a local and national level.
- **CPI inflation rose slightly in September to 0.5%**, up from 0.2% the month before. This is still some way off the Bank of England's 2.0% target though. The largest upward contribution to inflation came from transport, as well as restaurant and café prices following the end of the Eat Out to Help Out scheme during August. Offsetting this was slight downward pressures from furniture, household equipment, games, toys and hobbies as well as food and non-alcoholic beverages.
- September payroll estimates found there were 20,000 more people registered on PAYE compared with August, the first month that has seen a rise in this data since March 2020. But the labour market survey data notes **a rise in the unemployment rate to 4.5% in the three months to August, the highest level in over three years**, while the employment figure declined to 75.6% over the same period. The unemployment rate was highest among those age 16-24 where the figure is 13.4%. This rate is likely to rise further in the coming months, particularly as **the furlough scheme is due to wrap up at the end of October, while at the same time local restrictions and lockdowns are again being imposed**. The hospitality industry, in particular, is likely to see even higher rates of unemployment.
- In the three months to August, **wages were reported to have grown by 0.8% (regular pay, excluding bonuses), up from 0.2%** in the previous quarter and well above the negative rates between May-July. The recent survey goes on to find that for those in wholesaling, hospitality and construction there has been an improvement in pay growth for August, but that growth is still negative. This pattern is closely linked to those who have been furloughed and returned to work recently.
- There was no MPC meeting in October and therefore no change in interest rates. **The Bank of England appears to be moving closer to adopting negative interest rates** as they have written to banks recently asking them what steps they would take in the event that borrowing costs were pushed below zero. Despite this, the deputy governor was quick to point out that this did not mean negative interest rates would be adopted anytime soon.

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

Residential property market

Sales Prices and Rents

- Annual house price growth continued to gain momentum during September as **Nationwide reported 5.0% annual house price growth**, the highest rate since September 2016. On a monthly basis prices rose by 0.9% reflecting a small decline in the pace of growth following August's punchy 2.0% monthly growth. As this is the end of the quarter the bank goes on to report regional house price growth and finds that **London and the South have dominated price growth during Q3 2020** over the same quarter last year with the South West (5.5%), Outer Metropolitan (5.0%) and the Outer South East (4.8%) at the top of the table while London showed a 4.4% rise. This **marks quite a change in course over the previous three years** when the Southern areas showed much lower price growth or declines while the rest of the country showed stable and rising house prices.
- **Halifax's September House Price Index also showed exceptionally strong growth with an annual increase of 7.3%**, the highest since June 2016 while on a monthly basis the bank found prices rose by an average 1.6%. This is the third month in a row that the bank has reported 'substantial gains' in house prices, following last month's annual hike of 5.2% and July's 3.8%. Halifax also reports that they have **received more mortgage applications over the last three months than at any time since 2008**, from both home movers and first time buyers.
- The Official House Price Index has finally 'caught up' to its usual schedule following a two month suspension due to the restrictions placed on the housing market earlier this year. Data to August 2020 finds that **annual house prices across the UK rose by an average of 2.5%**, up from July's figure of 2.1%. On a monthly basis prices rose by 0.7% during August, up from July's figure of 0.5%. Last month we mentioned **June's unusually strong monthly price rise and although that figure has been revised to 1.8% (from 2.7%) it still marks the strongest monthly price rise in almost 20 years**, once again showing the pent-up demand that had built up during the April and May restrictions.
- Regionally, all areas recorded positive price growth with the East Midlands posting the strongest growth at 3.6% followed by London and the North West, both at 3.5%. Of our Carter Jonas office location areas Prime Central London tops the table at 8.5% while outside of London West Oxfordshire saw 7.9% annual growth followed by South Oxfordshire (6.9%), Leeds (5.4%) and Oxford (5.0%). London is finally seeing some sustained house price growth with an average of 3.5% this month. **The capital has now seen nine months of positive house price growth following a stretch of 21**

months where prices were either falling or saw no growth.

- The latest **RICS residential market survey** for September continues to show the housing market 'advancing at a strong pace'. The survey's headline indicator on prices showed a **net balance of +61% who believe that prices are growing**. Unlike the last few months **all regions indicate that prices are rising** although once again the pace of growth appears to be more modest in London than the rest of the regions. Looking ahead, +23% of respondents think that prices will continue to rise over the next 3 months while over the longer term 12 month forecast the net balance continues to be positive for prices to rise modestly.
- Rightmove reported a new national record for the average house price coming to the market, with a **1.1% monthly rise in the four weeks to mid-October (their October report). On an annual basis this equates to a 5.5% rise**, another increase over last month's 5.0% reported growth and is the highest annual rate of growth in over four years. The site goes on to **forecast an annual house price growth rate of 'circa' 7% by December** suggesting that the momentum we've seen over the last few months has some way to go although they go on to say this will be the peak of the market.
- Turning to the lettings market and HomeLet's latest September Rental Index indicates that **average rents rose 0.2% over August's rate and 2.1% more than the same time last year**. If London is excluded then rents across the remainder of the UK rose by an average of 4%. Ten of the twelve regions that the index covers showed an increase in rental values over the last year, with the South West recording the strongest rate of growth at 6.6% annually. London however has seen rents fall by 2.8% over September 2019 and marks **the fourth month in a row that rents have declined in the capital, on an annual basis**.

Activity

- The number of **approved mortgages in England rose by nearly 30% in August** over July to 84,715 according to Bank of England data. This is also 28% more than the same month last year and marks **the highest number of mortgage approvals in one month since October 2007**. Despite this surge in activity during August, on an annual basis, mortgage approvals are still only around 80% of where they normally are at this time of 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.

- As discussed above, **the September 2020 RICS residential market survey continues to point to a strong and growing housing market across all indicators.** New buyer enquiries increased once again, as +52% of contributors reported, marking the fourth consecutive month of increasing demand. New instructions were also reported to have risen for the fourth month in a row, the longest stretch of rising instructions since 2013. +48% of respondents also noted that appraisals were up while a net balance of +55% reported an increase in agreed sales. The near-term outlook also looks positive with +17% of contributors expecting an upturn in sales over the coming three months.
- Activity in the housing market hit three new records in September, according to Rightmove's latest house price index report. The **average time to sell of 50 days is faster than ever before** and means agents have more properties on their books marked as sold than available for the first time ever. The month also saw **the highest number of sales ever agreed in one month**, up 70% over the same time last year while the site further reports that **traffic to Rightmove is up 50% over September 2019.** Although the report suggests that the pace of growth appears to be easing, sales agreed for October are still (so far) up 58% over the same period last year.
- Meanwhile the RICS survey found that tenant demand rose for the fourth consecutive month. However, this was not the case across all regions as **London respondents reported a negative trend in tenant demand during September.**
- Arla PropertyMark's August Private Rented Sector report found that **demand for rental properties is the strongest they have ever recorded** with the number of new prospective tenants reaching 101 per branch, surpassing July's previous record of 97. On the supply side the report goes on to say that the number of managed rental properties per branch was 208, in line with the record high reached in July 2017.

Winter Housing Market Outlook

- We have just launched our **[Winter Housing Market Outlook, which you can find by clicking here.](#)** In it, we examine in more detail the recent factors that are influencing the direction of the housing market, and how we think these will manifest over the coming weeks and months.

HM Treasury Forecasts for the UK Economy, October 2020

	2020	2021	2022	2023	2024
Official Bank Rate (%)	0.10	0.10	0.30	0.55	0.85
House Price Growth (annual, %)	+2.2	-2.6	5.9	4.5	1.4
CPI inflation rate (annual average, %)	0.6	1.9	2.1	2.1	2.1
Unemployment rate (%)	7.3	7.0	6.2	5.3	4.9
GDP (annual, %)	-10.2	6.3	3.3	2.2	1.8
Average earnings growth (annual, %)	-0.2	2.0	2.7	3.3	3.5

Sources: HM Treasury Consensus Forecasts (2020 and 2021: October 2020; 2022-2024: August 2020)

Select Market Indicators, latest versus previous data

	Current	Previous	Direction of change
GDP monthly (June, month-on-month)	2.1%	6.6%	↓
Retail sales volumes (monthly % change)	1.5%	0.8%	↑
GfK Consumer Confidence Index	-25	-27	↑
IHS Markit / CIPS Manufacturing PMI	54.1	55.2	↓
IHS Markit / CIPS Construction PMI	56.8	54.6	↑
IHS Markit / CIPS Services PMI	56.1	58.8	↓
Inflation rate	0.5%	0.2%	↑
Interest rate	0.10%	0.10%	↔
Employment rate (to August 2020)	75.6%	76.5%	↓
Unemployment rate (to August 2020)	4.5%	4.1%	↑
Weekly earnings growth, regular pay (excl bonuses)	0.8%	0.2%	↑
Nationwide annual house price inflation	5.0%	3.7%	↑
Halifax annual house price inflation	7.3%	5.2%	↑
Official UK House Price inflation (Annual)	2.5%	2.1%	↑
Rightmove House Price Index (annual, asking prices)	5.5%	5.0%	↑
HomeLet Rental Index (annual growth, UK)	2.1%	1.5%	↑
£ Sterling: \$ USD	\$1.30	\$1.30	↔
£ Sterling: € Euro	€1.10	€1.10	↔
Brent Crude (USD)	\$42.26	\$42.06	↑
Gold (USD)	\$1,902.87	\$1,943.36	↓
FTSE 100	5,900.81	6,053.24	↓
UK 5 Year Gilt Yield	-0.075	-0.125	↓

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

Official House Price data, HM Land Registry, August 2020

Sources: HM Land Registry

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
West Oxfordshire	£343,119	2.6%	7.9%
South Oxfordshire	£446,483	4.6%	6.9%
Leeds	£197,026	1.7%	5.4%
Oxford	£427,741	6.8%	5.0%
Bath and North East Somerset	£352,986	1.1%	4.6%
Cambridge	£452,725	0.7%	4.2%
Winchester	£425,068	4.2%	3.3%
Cornwall	£241,851	-0.1%	3.0%
Devon	£268,183	2.5%	2.9%
Wiltshire	£279,809	0.8%	2.2%
Dorset	£290,595	-0.2%	2.1%
Northamptonshire	£231,868	0.7%	2.0%
Harrogate	£291,168	1.6%	1.8%
Somerset	£241,173	0.6%	1.6%
Suffolk	£247,796	-0.9%	1.0%
Cambridgeshire	£296,894	0.1%	0.8%
York	£258,029	0.3%	0.4%
South Cambridgeshire	£380,674	2.5%	-0.1%
Northampton	£212,449	-0.3%	-0.1%
West Berkshire	£342,483	2.1%	-2.8%
Vale of White Horse	£354,275	0.6%	-2.8%

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
East Midlands	£202,345	0.6%	3.6%
North West	£173,617	1.4%	3.5%
London	£489,159	0.9%	3.5%
South East	£332,147	1.6%	2.9%
England	£256,109	0.7%	2.8%
Wales	£172,828	2.1%	2.7%
Yorkshire and The Humber	£170,025	0.1%	2.7%
South West	£264,886	0.0%	2.5%
United Kingdom	£239,196	0.7%	2.5%
West Midlands region	£204,886	0.1%	2.3%
East of England	£296,411	0.8%	2.0%
North East	£131,701	0.0%	0.2%

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£489,159	0.9%	3.5%
Prime Central London	£1,166,021	4.6%	8.5%
South West London	£687,165	1.8%	4.6%

Official House Price data, HM Land Registry, August 2020

Sources: HM Land Registry

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Islington	£736,991	9.1%	14.6%
Kensington And Chelsea	£1,368,318	4.2%	9.9%
Richmond upon Thames	£713,067	2.4%	8.7%
City of Westminster	£963,725	5.1%	7.0%
Waltham Forest	£451,537	1.0%	6.0%
Lambeth	£546,470	1.5%	5.1%
Haringey	£572,535	5.0%	5.0%
Wandsworth	£616,711	3.2%	4.6%
Tower Hamlets	£461,692	3.8%	4.2%
Sutton	£383,367	2.6%	4.2%
Hillingdon	£413,445	0.0%	4.1%
Bexley	£350,938	1.7%	3.9%
London	£489,159	0.9%	3.5%
Newham	£373,196	-0.9%	3.0%
Croydon	£376,180	0.4%	2.9%
Ealing	£487,322	2.6%	2.9%
Harrow	£460,179	1.7%	2.4%
Redbridge	£426,675	2.2%	1.7%
Merton	£524,429	-0.2%	1.6%
Southwark	£503,092	-2.0%	1.5%
Havering	£371,104	-1.2%	1.0%
Barking and Dagenham	£302,395	-0.6%	1.0%
Enfield	£395,854	1.9%	0.8%
Hounslow	£407,440	1.8%	0.7%
Hammersmith and Fulham	£731,718	0.1%	0.5%
Brent	£487,949	1.4%	0.3%
City of London	£814,665	-4.4%	0.2%
Lewisham	£417,152	-2.4%	0.2%
Greenwich	£394,809	0.6%	-0.4%
Hackney	£564,159	-3.0%	-0.8%
Barnet	£522,846	-0.3%	-1.1%
Bromley	£435,535	0.3%	-1.2%
Kingston upon Thames	£496,801	1.9%	-1.9%
Camden	£812,080	0.9%	-7.4%
Outer London	£432,947	0.9%	1.9%
Inner London	£590,399	1.6%	3.3%

HomeLet Rental Index, September 2020

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
South West	£902	0.3%	6.6%
North East	£558	2.2%	4.3%
North West	£770	-1.4%	4.2%
West Midlands	£747	1.1%	4.0%
UK (excluding Greater London)	£828	0.4%	3.9%
East Midlands	£678	1.2%	3.8%
South East	£1,074	0.4%	2.8%
Wales	£650	1.4%	2.5%
Yorkshire & Humberside	£673	-0.7%	2.4%
UK	£987	0.2%	2.1%
East of England	£967	1.4%	1.4%
Scotland	£683	-1.3%	1.0%
Northern Ireland	£657	-1.6%	-2.4%
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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