

RESIDENTIAL BRIEFING NOTE

April 2021

Market Overview

*As lockdown restrictions across the UK continue to ease and more businesses are slowly being allowed to reopen, and the encouragingly high uptake of the vaccine persists, there is a sense of optimism and confidence. This optimism has been reflected in the latest **Deloitte's survey of Chief Financial Officers**; the report notes that the tone of the respondents was remarkably upbeat, was the most consistently positive survey since its inception in 2007, and optimism amongst the CFO's rose to its highest level in 13 years. It goes on to say that the Brexit issue has fallen sharply from businesses top risk worries, profit outlooks are at their highest levels since 2014, and plans for jobs growth and investment across firms have reached their highest level in almost six years. In all, the report was remarkably sanguine.*

The small reduction in activity levels in the housing market at the start of the year seems to have all but vanished. Demand has bounced back rapidly although this has not been met with the same levels of increased supply. House prices have reflected this imbalance with growing prices across nearly all indices and rising asking prices as vendors cash in on the high number of buyers keen to get a sale in before the June stamp duty relief deadline.

Executive Summary

- *No changes to government lockdown restrictions during February meant that GDP was hardly expected to change so the fact that output did rise by a modest 0.4% during the month suggests that January may have been the trough of the economic output cycle this year.*
- *The Purchasing Managers Indices for all of manufacturing, construction and the services industries rose significantly in March as the pandemic restrictions began to ease. Encouragingly, jobs growth was also recorded in each sector, with some showing the highest upswing in two years.*
- *Latest labour force survey data shows the wider labour market is still fairly insulated from the effects of the pandemic; the unemployment rate was down again in February to 4.9% although PAYE payroll data shows employee numbers fell in March for the first time in three months.*
- *Average earnings rose in February, to 4.4%. But this will have been upwardly influenced by the numbers and proportion of lower paid workers out of work. Underlying wage growth is probably around 2.5%.*
- *Yet again there has been inconsistent data emerge between the Nationwide and Halifax house price indices. Halifax finds that monthly house prices rose 1.1% while rather peculiarly Nationwide reports house prices having fallen 0.2%. It is important to remember that the bank's data is collected via mortgage applications which are usually several weeks before the data is officially published which could explain some of the discrepancy.*
- *The latest March RICS residential survey finds the sales market activity rose sharply over the month, including enquiries, sales and instructions improving noticeably compared with February as the stamp duty extension has clearly buoyed demand.*
- *Rightmove's latest data shows that as demand surges and supply dwindles asking prices are rising sharply, up 2.1% on a monthly basis, only the second time in five years that prices have risen by more than 2% in a month.*

UK economic backdrop

- Monthly **GDP grew 0.4% in February**, up from a (revised) fall of 2.2% the month prior, reflecting the fact that government restrictions remained unchanged during the month. The services sector grew slightly, up 0.2% while the production sector grew by 1% and construction output increased the most of all sectors, up by 1.6%. February's overall GDP is still 7.8% below pre-pandemic levels (February 2020). This small GDP **growth during February suggests that January may be the low point of the year.**
- **Retail sales continued to recover during March with volumes up 5.4%** compared with February. As partial easing of coronavirus restrictions took place sales volumes even rose 1.6% compared with February 2020 (before the impact of the pandemic) but this is even **before non-essential retailers were allowed to reopen in April so progress in the economy is encouraging.** Clothing sales drove the largest upward momentum in sales with this sector rising by 17.5% compared with February; sales in 'other non-food stores' also jumped by 13.4%.
- GfK's **Consumer Confidence Index for March increased seven points to -16**, with all five measures rising in comparison to the February report. The Budget announcements early in the month together with the vaccine rollout and wider positive sentiment around the economy appears to have boosted confidence. The indices looking ahead 12 months were particularly positive with the Economic Situation Index increasing 13 points and the Personal Financial Index rising 6 points. The Major Purchase Index also increased substantially, rising 8 points to -11 but **if continued confidence turns into increased spending this measure could increase even further over the short-term** and help reverse some of the economic impacts of the pandemic.
- The **manufacturing sector showed its steepest monthly output growth since February 2011**, with the latest Manufacturing Purchasing Managers Index (PMI) moving from 55.1 in February to 58.9 in March, according to CIPS / IHS Markit. The strong reading was off the back of rising demand both domestically and overseas as confidence in the vaccine rollout continued coupled with the loosening of lockdown restrictions. **Output, new business and job growth all rose rapidly with employment growing at a seven-year high.**
- The CIPS / IHS Markit UK **Construction sector PMI also jumped sharply in March to 61.7** from 53.3 the previous month. This is the strongest rate of construction growth since September 2014 with **commercial and civil engineering expanding the most, although housebuilding also grew. Business expectations are at their highest levels since 2015** as the economic outlook improves. Employment growth in the industry also grew again in March, faster than last month which itself was the fastest rate in two years.
- The **Services PMI meanwhile continues to bounce back, showing a reading of 56.3** in March, up from 49.5 in February and reflects the fastest rate of expansion in seven months. **Client demand and forward bookings ahead of a further easing in lockdown restrictions appears to have buoyed the sector**, with backlogs of work also contributing to output. Job creation in the sector was also at its highest level since September 2019.
- **Inflation (CPI) rose by 0.7% in the 12 months to March**, up from 0.4% in February, but still well below the 2.0% target although interest rates are unlikely to be raised anytime soon, as a result. A rise in **fuel prices placed the most upward pressure on inflation this month** (particularly as it fell significantly in March 2020 during lockdown) but this was partially offset by falls in the price of food and the continuing fall in clothing and footwear costs.
- This month's labour force survey shows that the **unemployment rate fell again to 4.9%** (February data) down from 5.0% in the previous month, the second decline in the same number of months. The **official employment figure equally rose, to 75.1%**, up 0.1 percentage points over the previous month's data. Together, the data suggests that the government furlough scheme is continuing to shield the labour market from the worst effects of the pandemic and lockdown. Nevertheless, **March's payroll data indicates that employment fell by 56,000, after having risen in each of the last three months.**
- Average earnings data continues to indicate strong wage growth, with **regular pay (excluding bonuses) up 4.4% in February**, from 4.2% the previous month. Pay growth figures though are being upwardly affected by a fall in the number and proportion of lower-paid jobs, and it is estimated that underlying wage growth is more likely to be around 2.5%.

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

Residential property market

Sales Prices and Rents

- Nationwide found that **house prices grew by 5.7% annually during March, down from 6.9% in February and reflecting a monthly fall of 0.2%**. Their report notes that a slowdown in March probably reflects the falling demand due to the original end of the stamp duty holiday. On a regional basis Nationwide finds that prices grew the most across the North West over the last 12 months at 8.2% (quarterly data), followed by the West Midlands at 7.6%, while areas outside London ('Outer Met', 5.6%) and London (4.8%) were at the bottom of the growth table.
- **Again, this month Halifax and Nationwide post diverging data with Halifax reporting annual price growth of 6.5%, up from 5.2% in February and reflecting a sharp monthly rise of 1.1%**. This is the first monthly price rise since November, according to the bank. The Halifax pricing data has been much more subdued over recent months compared with the other indices; this latest jump in prices has closed the gap slightly.
- **The ONS official house price index for February indicates another increase in the pace of house price inflation, with average prices up 8.6%** compared with the same time last year. On a monthly basis however, prices have remained largely unchanged across the UK, although up by 0.2% in England.
- Regionally, house price inflation is robust in all locations although there is a wide range of growth; the **North West is top of the table with an average annual rise of nearly 12% followed by Yorkshire and the Humber at 11% and the East Midlands at 10.6%**. London meanwhile is pulling up the rear with recorded average growth of 4.6%, down from 5.2% in January.
- Across the **London boroughs and house price inflation again reflects the strong demand for suburban locations** with the likes of Merton (13.3%), Sutton (11.7%), Ealing (11.4%) showing the strongest rates of annual growth this month. The outer London boroughs as a whole recorded a 6.7% annual price increase while the inner London locations posted just 1.8% growth. In contrast to the suburbs, the **demand for prime central London locations is weak and this is shown with average price falls of 4.4%** over the 12 months to February. All five locations which have recorded price falls this month are in central locations: Westminster, Tower Hamlets, Kensington and Chelsea, Hammersmith and Fulham and the City of London.
- Of the Carter Jonas tracked locations **the popularity of Bath and North East Somerset (18.7%), Cornwall (12.3%), Winchester (11.0%) and Somerset (10.0%) continues to soar** during these pandemic and lockdown times, with these four locations once again topping the table of our 21 tracked districts.
- At a national level, **+59% of respondents in the latest RICS residential market survey cited an increase in house prices during the latest survey period** (March, released early April). The report goes on to say that the price indicator has risen in each of the last two months, although not as high as the peak of +66% back in October last year. Prices are rising in all regions, according to participants, with **the strongest rise in the North West, Yorkshire and the Humber** and Northern Ireland. Furthermore, +42% of participants expect prices to rise further in the short-term (up substantially from last month's figure of +16%) while **+60% expect nationally higher prices over the longer term (one year horizon)**.
- **Rightmove reports annual asking prices having risen by 5.1% during April**, up from 2.7% in March and reflecting a sharp **monthly rise of 2.1%** (only the second time in five years that asking prices have risen by more than 2% in one month). The report (released mid-April) notes that asking prices have now set a record high, at £327,797 surpassing the previous record set last October, by over £4,000.
- Average **rents in Greater London continue to decline**, according to HomeLet's latest report into the private rented sector. On average, rents over the last 12 months have fallen by 5.2% in London, compared with a UK average (excluding London) of 6.8% growth. **Meanwhile rents continue to grow sharply in commuter and rural / countryside locations including the East Midlands where they grew by an average of 2% over the last month, as well as the South West which saw average monthly rent rises of 2.4%**. Both these regions have seen sharp annual rent rises recently with 10.5% in the East Midlands and 9.6% across the South West.
- The RICS residential market survey notes that short-term **rental growth expectations rose sharply in their latest March report, rising to a net balance of +47%**, from +37% last month. Over the coming 12 months participants suggest **rental growth will be a little less than 3% annually**, with London the only region where rents are not expected to rise over the year.

Activity

- Mortgage approvals fell for the second consecutive month during February. **Latest Bank of England approvals data shows that 87,700 mortgages were approved in the month**, down from 97,000 in January. This probably **reflects a softening of demand during the height of the national lockdown coupled with the approaching (original) end of the stamp duty holiday**. Still, approvals were up nearly 20% year on year and the new extension coupled with the easing of lockdown over the coming months will keep demand in the housing market high.
- Transaction data (provisional) from HMRC shows **there were over 190,000 residential properties transacted during March, surpassing even March 2016's record by over 8%** as people scrambled to get their sales completed ahead of the (original) stamp duty holiday deadline. This is now the sixth straight month of over 100,000 recorded sales. Given that the stamp duty holiday has been extended for a further three months, we expect these strong figures to remain at least until then.
- The March RICS residential survey shows sales market activity has picked up significantly in the month. A net balance of **+42% of respondents cited new enquiries were up, a sharp increase from 0% the previous month**, while new instructions also rose (although the report is quick to note that the pace of new supply was not as strong as demand). Anecdotally, the comments in the report showed **the common theme whereby demand is running well ahead of supply. Agreed sales also rose with +50%** of respondents reporting an increase, compared with just +7% the month before. Finally, the report indicates that the near-term sales outlook is now the most upbeat since January 2020.
- In Rightmove's latest monthly house price index report they note that **the demand for housing continues to surge, and although supply has risen over the last few weeks, it is still not enough to meet buyer demand**. They go on to say that the number of agreed sales is up 55% compared with the same period two years ago which is in turn reducing available stock which now sits at the lowest proportion the site has ever recorded. Two- and three-bedroom semi-detached homes appear to be in highest demand with 30% of those marketed being sold within one week.
- Turning back to the RICS survey and across the lettings market, the report finds **that tenant demand is rising, with a net balance of +36% of respondents saying new tenant demand has risen**, up from +26% the previous month. On the other hand, supply continues to dwindle with -25% of contributors saying **landlord instructions fell**.

HM Treasury Forecasts for the UK Economy, April 2021

	2021	2022	2023	2024	2025
Official Bank Rate (%)	0.12	0.27	0.25	0.49	0.73
House Price Growth (annual, %)	0.7	0.3	2.9	2.6	2.5
CPI inflation rate (annual average, %)	2.1	2.2	1.8	1.8	1.9
Unemployment rate (%)	6.2	5.4	5.1	4.6	4.4
GDP (annual, %)	5.3	5.6	2.2	1.9	1.8
Average earnings growth (annual, %)	3.8	3.4	3.0	3.0	3.1

Sources: HM Treasury Consensus Forecasts (April 2021 and February 2021 for long-term forecasts)

Select Market Indicators, latest versus previous data

	Current	Previous	Direction of change
GDP monthly (month-on-month)	0.4%	-2.2%	↑
Retail sales volumes (monthly % change)	5.4%	2.1%	↑
GfK Consumer Confidence Index (monthly, Feb '21)	-16	-23	↑
IHS Markit / CIPS Manufacturing PMI	58.9	55.1	↑
IHS Markit / CIPS Construction PMI	61.7	53.3	↑
IHS Markit / CIPS Services PMI	56.3	49.5	↑
Inflation rate	0.7%	0.4%	↑
Interest rate	0.10%	0.10%	↔
Employment rate	75.1%	75.0%	↑
Unemployment rate	4.9%	5.0%	↓
Weekly earnings growth, regular pay (excl bonuses)	4.4%	4.2%	↑
Nationwide annual house price inflation	5.7%	6.9%	↓
Halifax annual house price inflation	6.5%	5.2%	↑
Official UK House Price inflation (annual)	8.6%	8.0%	↑
Rightmove House Price Index (annual, asking prices)	5.1%	2.7%	↑
HomeLet Rental Index (annual growth, UK)	3.4%	3.3%	↑
£ Sterling: \$ USD	\$1.39	\$1.39	↔
£ Sterling: € Euro	€1.16	€1.16	↔
Brent Crude (USD)	\$64.80	\$62.29	↑
Gold (USD)	\$1,789.70	\$1,739.41	↑
FTSE 100	6,907.45	6,697.99	↑
UK 5 Year Gilt Yield	0.308	0.342	↓

Sources: ONS (unless otherwise indicated) (final six indicators retrieved on 22 April)

Official House Price data, HM Land Registry, February 2021

Sources: HM Land Registry

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
Bath and North East Somerset	£393,883	5.0%	18.7%
Cornwall	£263,014	-0.3%	12.3%
Winchester	£453,658	1.2%	11.0%
Somerset	£260,758	1.4%	10.0%
Leeds	£207,238	-0.9%	9.8%
Devon	£283,514	1.7%	8.7%
Northampton	£228,706	2.4%	8.4%
West Berkshire	£372,063	2.8%	7.9%
South Oxfordshire	£439,453	-0.5%	7.2%
Oxford	£435,372	-1.6%	7.0%
Cambridge	£474,824	4.0%	7.0%
Northamptonshire	£242,737	0.3%	6.8%
Suffolk	£259,482	-0.4%	6.7%
Dorset	£310,141	-0.6%	6.6%
York	£273,341	0.1%	6.6%
Wiltshire	£286,958	-2.4%	6.4%
Cambridgeshire	£312,004	1.3%	5.9%
West Oxfordshire	£332,934	-2.5%	5.7%
South Cambridgeshire	£401,764	2.0%	5.1%
Harrogate	£297,867	-0.9%	2.4%
Vale of White Horse	£365,852	-2.2%	1.9%

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
North West	£184,351	1.3%	11.9%
Yorkshire and The Humber	£182,220	0.6%	10.9%
East Midlands	£213,967	0.8%	10.6%
South West	£279,242	0.0%	9.0%
North East	£138,370	-1.6%	9.0%
England	£268,291	0.2%	8.7%
United Kingdom	£250,341	0.0%	8.6%
South East	£345,075	0.9%	8.5%
Wales	£179,861	-0.7%	8.4%
West Midlands	£215,451	0.8%	8.3%
East of England	£306,346	-0.9%	6.0%
London	£496,269	-1.4%	4.6%

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£496,269	-1.4%	4.6%
Prime Central London	£1,110,536	-3.0%	-4.4%
South West London	£654,568	-4.8%	3.0%

Official House Price data, HM Land Registry, February 2021

Sources: HM Land Registry

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Merton	£567,098	0.5%	13.3%
Sutton	£416,499	4.8%	11.7%
Ealing	£520,674	2.9%	11.4%
Lewisham	£457,419	2.8%	10.8%
Newham	£410,288	7.0%	10.5%
Southwark	£545,091	1.5%	9.8%
Redbridge	£456,098	0.7%	9.3%
Waltham Forest	£474,848	0.0%	8.8%
Hillingdon	£435,757	2.1%	8.0%
Bromley	£464,868	0.4%	7.4%
Brent	£502,264	-2.3%	7.3%
Bexley	£363,412	1.3%	7.2%
Barking and Dagenham	£323,954	2.4%	6.9%
Croydon	£395,363	2.3%	6.1%
Greenwich	£421,221	3.0%	6.0%
Harrow	£473,337	0.0%	5.1%
Haringey	£567,352	-4.5%	4.9%
Islington	£700,791	1.7%	4.8%
London	£496,269	-1.4%	4.6%
Hounslow	£431,049	0.3%	4.6%
Richmond upon Thames	£686,620	-3.2%	4.5%
Kingston upon Thames	£505,421	0.0%	4.1%
Havering	£378,213	-1.8%	4.1%
Enfield	£404,689	-3.1%	3.7%
Barnet	£531,887	-1.6%	2.8%
Hackney	£585,760	-2.8%	2.8%
Lambeth	£530,527	-3.1%	2.4%
Wandsworth	£617,220	0.7%	1.2%
Camden	£822,936	-0.1%	0.9%
City of Westminster	£1,000,560	5.7%	-1.3%
Tower Hamlets	£455,633	-0.7%	-3.8%
Kensington And Chelsea	£1,220,511	-9.1%	-7.5%
Hammersmith and Fulham	£659,865	-10.9%	-10.5%
City of London	£675,309	-12.5%	-15.5%
Outer London	£452,056	0.4%	6.7%
Inner London	£593,169	-1.0%	1.8%

HomeLet Rental Index, March 2021

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
East Midlands	£718	2.0%	10.5%
South West	£936	2.4%	9.6%
East of England	£987	0.9%	6.8%
UK (excluding London)	£847	0.8%	6.8%
North West	£788	0.8%	6.8%
Yorkshire & Humberside	£688	1.2%	6.5%
South East	£1,086	-0.1%	6.0%
Wales	£677	0.6%	5.6%
West Midlands	£746	-0.4%	4.5%
North East	£542	0.0%	4.4%
UK	£992	0.8%	3.4%
Scotland	£682	0.6%	1.9%
Northern Ireland	£681	2.9%	-0.1%
Greater London	£1,586	0.9%	-5.2%

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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