

RESIDENTIAL BRIEFING NOTE

DECEMBER 2021

Market Overview

The new COVID variant, Omicron, along with being highly transmissible and now rising rapidly across most parts of the UK, has created a high degree of uncertainty across the markets and the economy over the last few weeks. The government's response has been to put in place further 'Plan B' restrictions including working from home where possible and compulsory masks in shops, public transport and other entertainment settings, while aiming to drive the booster vaccination campaign yet further. They fell short of imposing limitations on gatherings and get togethers - with the aim of limiting the economic impact - but as cases rise swiftly and the public becomes increasingly nervous, an economic slowdown is almost certain. The wider impacts and the severity of the new variant will take some weeks to fully analyse and understand, and it will be well after the Christmas holiday period before full health implications and the economic effects are known.

The winter months and the holiday season are typically quieter weeks for the housing market, across both the sales and lettings markets. However, latest data from Rightmove shows that although asking prices are down slightly this month (to entice buyers to commit during the holiday season), market appraisal and valuation requests are up 19% compared with the same time last year, indicating the rather buoyant sales market continues.

Executive Summary

- GDP grew by a meagre 0.1% in October, and while output in the services industry grew slightly, both production and construction output fell.
- Retail sales were clearly boosted by Black Friday and the run-up to Christmas with volumes increasing by 1.4% month on month. Clothing, toys and jewellery stores all saw strong growth and contributed the largest upward rise.
- Two of the three Purchasing Managers Indices (PMIs) rose in November over their October figures, albeit only slightly. The Services sector PMI declined although at 58.6 this is still indicative of a strong and expanding industry. Yet again input cost inflation rose across all major industries.
- Yet again inflation rose at its highest rate in over ten years, increasing to 5.1% in November, up from 4.2% the previous month. Motor fuels, household goods, clothing and the price of raw materials all contributed to rising costs.
- Rising inflation and global cost pressures generally helped sway the Bank of England to raise interest rates for the first time in 20 months, to 0.25%
- There was another large increase in the number of payrolled employees in November (up 257,000), while the employment figure also rose slightly to 75.5% in the three months to October. Job vacancies however hit another record high at 1.22 million.
- House price inflation was maintained during November, with 10% annual growth recorded by Nationwide and 8.2% by Halifax. Both figures represent virtually no change over October growth rates as strong demand continued.
- Annual UK rental growth of 8.6% was recorded by HomeLet in their latest report into the private rented sector. Greater London rents rose by an average of 11.5% as demand for city centre locations continues to rise.

UK economic backdrop

- GDP is estimated to have grown by a sluggish 0.1% in October, down from September's 0.6% increase. Services output grew by 0.4% in the month while both production and construction output shrank by 0.6% and 1.8% respectively. Yet again supply chain and transport logistics disruptions continue to strangle output growth while the construction industry is being hampered by raw materials shortages. GDP is now 0.5% below its pre-pandemic (February 2020) level.
 - The latest GfK Consumer Confidence index reports a small rise of three points in November to -14. Encouragingly four sub-measures were up including the Major Purchase Index which rose seven points to -3 in the run up to Black Friday deals and the festive retail season. The Personal Financial Situation (over the next 12 months) measure was the strongest index at +2 after rising by one point over October.
 - Some good news from the retail sector with retail sales volumes showing an increase of 1.4% in November, to now reach 7.2% above pre-pandemic levels. Black Friday deals no doubt helped boost demand. Non-food store sales rose by 2.0%, including clothing sales which increased 2.9% and 'other' non-food stores selling items such as computer games, toys and jewellery increased by 2.8% on the month. Auto fuel sales also increased by 3.7%, but this follows some disruption to supplies in the previous two months.
 - The IHS Markit / CIPS UK Manufacturing PMI for November rose slightly to 58.1 over October's 57.8 reading. Output growth rose from October's eight-month low and new business orders increased yet again. Despite this, export sales fell for the third month in a row with trade disruption to the EU due to Brexit still cited as a cause. New job growth however was the strongest since August, but input cost inflation hit another record high this month.
 - Meanwhile the construction sector PMI also rose in November, up to 55.5 from 54.6 in October. Commercial work rose at its highest rate since July and total new business growth also hit a three-month high. The pace of job creation is at its slowest rate for eight months and supplier performance measurements are still in negative territory due to port disruptions and transport issues. Input costs also rose yet again.
 - Although the Services sector PMI fell slightly in November to 58.6 (from 59.1 in October), the underlying conditions are still very strong. New orders grew to a five-month high amid very strong domestic demand as people get back to their offices and international travel. The gradual reduction of travel restrictions has led to stronger demand from abroad and new international work orders rose at their fastest rate in over 3.5 years. Nevertheless, the sector is under pressure from the highest input cost inflation ever recorded by this survey, but these price changes have not yet been fully passed to clients.
 - Cost of living, as measured by the Consumer Price Index (CPI) rose 5.1% in the 12 months to November, up from 4.2% last month to reach its highest level in over ten years. The largest upward contributions came from transport (including petrol and diesel prices and secondhand cars), clothing and footwear. Another large increase came from the price of raw materials which has been reflected in much of the PMI feedback over the last few months.
 - The Bank of England has raised interest rates for the first time since March 2020, moving from 0.10% to 0.25% by a Monetary Policy Committee (MPC) vote of 8-1 in favour. The MPC noted that although the COVID variant, omicron, poses downside risks to the economy, successive waves of COVID appeared to have less impact on economic growth, while global cost pressures continue to remain strong, thus helping to necessitate the interest rate rise.
 - The employment rate rose again in the three months to October, to 75.5% according to the ONS's latest figures. The unemployment rate decreased slightly as well, down to 4.2% from last month's 4.3%. The number of payrolled employees also rose again in November, up 257,000 to reach a total of 29.4 million registered.
 - The number of job vacancies continued to rise with another new record of 1,219,000 vacancies, up by over 434,000 since before the pandemic (February 2020). However, the rate at which the vacancies are growing has slowed again in the latest figures, rising by 184,700 in the latest three months, compared with 270,300 last quarter. The report found that 13 of the 18 industry sectors are showing record high levels of vacancies.
 - Average earnings growth (excluding bonuses) rose by 4.3% annually in the three months to October, down from last month's 4.9% figure, according to the latest Labour Market Survey by the ONS. The very strong wage growth rates that had been seen earlier this year were upwardly affected by base and compositional impacts due to the pandemic, but these have now mainly worked themselves out of the latest datasets.
- *Click to see the [latest market indicators](#) at the end of document*

Residential property market

Sales Prices and Rents

- Annual house price growth remained very strong in November, now a full two months past the end of the stamp duty tax break. At 10.0% annual growth this is up just slightly from October's 9.9% rise, according to Nationwide. Month-on-month prices rose by 0.9% and the bank notes that average prices are now 15% above where they were at the start of the pandemic in March 2020.
- Over to Halifax and annual UK house price growth of 8.2% was recorded in their November index, unchanged from last month's (revised) figure of 8.2%. This reflects a monthly growth figure of 1.0%, adding approximately £2,800 to the average price of a UK home (£272,992). The bank goes on to note that on a quarterly basis the rise of 3.4% was the strongest quarterly figure since 2006.
- The HM Land Registry official house price index reported annual inflation of 10.2% in October, down from (a revised) 12.3% in September and reflecting a monthly decline of 1.1%. This is now the third consecutive month of double-digit house price growth in the UK, not seen since mid-2007.
- Regionally, the official index yet again has Wales showing the highest annual growth of 15.5%, followed by the East Midlands at 11.7%, East of England (11.2%) and Yorkshire and the Humber (11.1%). London once again is at the bottom of the regional table although annual growth here of 6.2%. Wales has now seen an annual average of 14% house price growth over the last eight months and has been either first or second on the regional table in seven of the last nine months.
- Of our Carter Jonas locations, Cornwall tops the table posting house price growth here of 15.5% over the last 12 months. This is followed by Bath (15.3%), North Northamptonshire (13.4%), Dorset (12.9%) and West Oxfordshire at 12.5%.
- As mentioned, London's annual house price growth reached 6.2% in October, up from last month's 2.8% growth. The inner London boroughs again saw low price growth of just 1.4% although the prime central London locations saw a hefty increase of 10.7%. Suburban / outer London locations posted growth of 7.7% this month, slightly above last month's 7.2%.
- Average asking prices fell slightly in December, down 0.7% over November's figure. However, on an annual basis asking prices rose by 6.3%, unchanged from last month according to Rightmove's latest house price index. This is an entirely expected seasonal fall in asking prices, as vendors look to lure buyers at a time of year when house sales typically slow. The report goes on to find that annually, asking prices for first-time buyer homes rose 5% compared with an 8.1% rise in second-stepper homes.
- HomeLet's November report into the private rented sector once again indicates a tight rental market with robust rent rises in all regions and countries of the UK. As demand for city centre locations surges rents in Greater London have risen by an average of 11.5% over the last 12 months, compared with a decline of 1.7% at the same time last year. The UK average of 8.6% annual growth was barely changed from last month's 8.7%. Outside London it was Wales and Northern Ireland at the top of the table with rental rises of 14.1% and 10.3%, respectively.

Activity

- Mortgage approvals fell again in October, to 67,199, according to latest data from the Bank of England, reflecting a decrease of 6% over September's figure. However, it is still 2% above the average monthly figure in 2019 of just over 65,000 approvals per month and with two months to go in 2022, there have already been over 17,000 more mortgage approvals than during the whole of 2019.
- A similar trend has been recorded in overall property transaction data from HMRC: while transactions declined quite significantly in October over September (down 51%), year to date total transactions now stand at 1.29 million, 10% more than the entirety of 2019. This also marks the highest number of transactions in the first ten months of the year, since 2007.
- Rightmove's latest house price index report noted another increase in requests for valuations this month, up 19% compared with the same time last year (versus a rise of 14% last month) indicating that buyer demand is still strong. Fully available stock has hit another record low this month though, and the web portal notes that seven out of 10 properties listed on their site are marked as 'sold subject to contract'.

HM Treasury Forecasts for the UK Economy, December 2021

	2021	2022	2023	2024	2025
Official Bank Rate (%)	0.13	0.62	1.32	1.69	1.73
House Price Growth (annual, %)	7.2	2.6	0.4	0.8	1.8
CPI inflation rate (annual average, %)	4.3	3.1	2.6	2.5	2.3
Unemployment rate (%)	4.5	4.3	4.2	4.1	4.1
GDP (annual, %)	7.0	4.7	2.2	1.6	1.5
Average earnings growth (annual, %)	5.2	4.0	3.4	3.3	3.4

Sources: HM Treasury Consensus Forecasts (2021 & 2022, December 2021, 2023-25 November 2021)

Select Market Indicators, latest versus previous data

	Current	Previous	Direction of change
GDP monthly (month-on-month)	0.1%	0.6%	↓
GfK Consumer Confidence Index	-14	-17	↑
Retail sales volume (monthly % change)	1.4%	0.8%	↑
IHS Markit / CIPS Manufacturing PMI	58.1	57.8	↑
IHS Markit / CIPS Construction PMI	55.5	54.6	↑
IHS Markit / CIPS Services PMI	58.6	59.1	↓
Inflation rate (CPI)	5.1%	4.2%	↑
Interest rate	0.25%	0.10%	↑
Employment rate	75.5%	75.4%	↑
Unemployment rate	4.2%	4.3%	↓
Weekly earnings growth, regular pay (excl bonuses)	4.3%	4.9%	↓
Nationwide annual house price inflation	10.0%	9.9%	↔
Halifax annual house price inflation	8.2%	8.2%	↔
Official UK House Price inflation (annual)	10.2%	12.3%	↓
Rightmove HPI (annual asking prices)	6.3%	6.3%	↔
HomeLet Rental Index (annual growth, UK)	8.6%	8.7%	↔
£ Sterling: \$ USD	\$1.32	\$1.34	↓
£ Sterling: € Euro	€1.17	€1.19	↓
Brent Crude (USD)	\$74.50	\$79.22	↓
Gold (USD)	\$1,784.17	\$1,845.48	↓
FTSE 100	7,241.23	7,250.18	↓
UK 5 YEAR GILT YIELD	0.6725	0.6370	↑

Sources: ONS (unless otherwise indicated) (final six indicators retrieved 16 December)

Official House Price data, HM Land Registry, October 2021

Sources: HM Land Registry

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
Cornwall	£288,742	5.7%	15.4%
Bath and North East Somerset	£409,712	3.8%	15.3%
North Northamptonshire	£247,366	1.4%	13.4%
Dorset	£331,550	4.2%	12.9%
West Oxfordshire	£385,193	3.1%	12.5%
South Oxfordshire	£499,582	4.6%	12.1%
Somerset	£276,040	0.7%	12.0%
Devon	£306,961	3.0%	11.4%
Suffolk	£280,155	3.3%	10.7%
South Cambridgeshire	£423,001	8.5%	10.6%
Cambridgeshire	£328,581	3.5%	10.1%
York	£286,802	1.0%	9.9%
West Northamptonshire	£272,151	1.3%	9.4%
Winchester	£468,633	1.8%	9.4%
Wiltshire	£307,829	3.8%	9.2%
Harrogate	£316,438	5.5%	9.0%
Leeds	£216,280	1.8%	8.5%
Vale of White Horse	£389,991	0.1%	7.5%
Cambridge	£468,671	-4.8%	6.7%
West Berkshire	£378,884	3.8%	5.8%
Oxford	£456,946	0.6%	5.4%

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
Wales	£203,224	2.6%	15.5%
East Midlands	£228,290	-0.9%	11.7%
East of England	£332,216	-0.1%	11.2%
Yorkshire and The Humber	£193,675	-1.7%	11.1%
South East	£366,883	-0.7%	10.3%
United Kingdom	£268,349	-1.1%	10.2%
South West	£298,600	-0.7%	9.9%
North West	£195,325	-4.8%	9.8%
England	£285,113	-1.5%	9.8%
North East	£147,719	-4.8%	9.7%
West Midlands region	£226,279	-3.3%	8.4%
London	£516,285	1.9%	6.2%

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£516,285	1.9%	6.2%
Prime Central London	£1,214,935	-0.2%	10.7%
South West London	£741,551	-1.7%	8.8%

Official House Price data, HM Land Registry, October 2021

Sources: HM Land Registry

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Redbridge	£482,251	3.8%	12.8%
Richmond upon Thames	£776,036	1.7%	12.5%
Hammersmith and Fulham	£814,322	-6.0%	12.4%
City of Westminster	£1,004,433	1.9%	11.0%
Bexley	£383,366	2.7%	11.0%
Barking and Dagenham	£335,683	3.1%	10.9%
Kensington And Chelsea	£1,425,437	-1.5%	10.4%
Havering	£406,351	1.1%	10.0%
Bromley	£479,845	-0.7%	9.6%
Kingston upon Thames	£542,707	2.6%	9.1%
Waltham Forest	£508,312	2.3%	8.9%
Barnet	£577,319	4.8%	8.8%
Harrow	£499,029	-0.6%	8.4%
Sutton	£417,545	1.6%	8.4%
Hillingdon	£448,487	2.2%	8.1%
Ealing	£526,582	-0.9%	7.7%
Lewisham	£462,603	6.0%	6.6%
Merton	£576,571	3.1%	6.6%
London	£516,285	1.9%	6.2%
Greenwich	£423,151	1.3%	5.2%
Haringey	£615,720	-1.6%	5.0%
Croydon	£397,215	2.8%	4.9%
Enfield	£424,704	-1.6%	4.4%
Islington	£711,601	-3.7%	4.0%
Newham	£383,985	3.7%	2.5%
Hounslow	£435,747	3.3%	1.7%
Wandsworth	£634,297	-0.1%	1.3%
Southwark	£520,982	1.1%	1.0%
Lambeth	£542,961	1.5%	0.2%
Camden	£800,815	-10.0%	-3.9%
Brent	£494,976	-2.4%	-5.5%
Hackney	£551,940	-7.9%	-6.6%
Tower Hamlets	£417,721	-15.2%	-12.5%
Outer London	£470,984	1.5%	7.7%
Inner London	£602,501	-2.2%	1.4%

HomeLet Rental Index, November 2021

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
Northern Ireland	£737	1.1%	14.1%
Greater London	£1,757	-0.1%	11.5%
Wales	£742	0.0%	10.3%
North West	£835	0.4%	9.0%
Yorkshire & Humberside	£736	1.2%	8.7%
UK	£1,058	-0.1%	8.6%
Scotland	£740	0.3%	7.7%
UK (excluding London)	£889	0.1%	7.4%
North East	£575	-2.2%	7.3%
West Midlands	£785	-0.9%	7.1%
East Of England	£1,030	0.3%	6.4%
South East	£1,129	-0.3%	6.0%
South West	£964	0.4%	5.9%
East Midlands	£729	0.1%	5.8%

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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