Carter Jonas

# RESIDENTIAL BRIEFING NOTE

February 2021

## Market Overview

*GDP was reported to have declined by 9.9% last year, the largest economic contraction the country has seen in over 300 years. Still, it was not as bad as feared and output grew by 1.0% during the final quarter, despite being in lockdown for the month of November. Having said that, the UK's contraction is still the largest of most sizeable nations, and certainly the biggest contraction of all the G7 countries. The fact that the UK has suffered more severely from the pandemic than most other countries, resulting in more frequent and tighter lockdown restrictions, will explain most of the discrepancy.*

*As the country hit the milestone of 15 million vaccine doses given, including all the top four tier groups, there is hope that 2021 will be a year of exceptional growth. With the vaccine programme now going at full speed, a return to 'normal' by the summer or early autumn certainly looks more feasible by the day.*

*All eyes are on housing market data over the coming weeks and months; the sector has been one of the shining beacons of the economy over the last eight months and with the approaching end of the stamp duty holiday the heat in the sector may be coming to an end or at least easing. Some index measures have already begun to reflect the declining pace of growth in the market. Nevertheless, there is still a chance the Chancellor could extend the holiday during the Budget speech on 3 March.*

## Executive Summary

- *Economic output grew by 1.2% in December but is still nearly 8% below pre-COVID levels and makes the UK the worst performing nation in terms of economic output following the COVID-19 crisis, of all the G7 countries.*
- *Unsurprisingly, all three Purchasing Managers Indices (PMI's) fell during January as the third lockdown inflicted a particularly strong hit to the services sector which showed a figure of 39.5.*
- *The services PMI however is nowhere near as low as it was in the initial lockdown last year, suggesting that firms and businesses are getting better at adapting to new ways of working online and remotely.*
- *The number of payrolled employees rose for the second month in a row to January 2021, although the unemployment rate continues to rise at 5.1% in the three months to December.*
- *Again, wage growth appears to be strong at 4.1% annually (up from 3.6% last month) but this is still because those in lower-wage jobs have seen higher job losses thereby increasing the average wage of those still in work.*
- *The housing market may be coming over the other side of the peak as Nationwide, Halifax and Rightmove (asking prices) all report the pace of annual house price growth slowing during January.*
- *Rightmove notes that supply has shrunk while demand has held up, meaning that upward pressure on prices may continue and a slight rise in their reported month-on-month asking prices reflect this.*
- *The slightly less timely official house price index from the ONS found that December's house price growth rose to 8.5%, the highest recorded rate since October 2014.*

## UK economic backdrop

- **GDP grew by 1.2% month on month in December,** above consensus forecasts but on a quarterly basis the UK economy is still 7.8% below the pre-COVID level. This makes **the UK the worst performer of all the G7 nations in relation to GDP during the pandemic,** with the lack of household spending being one of the main causes of the country's poor output levels. Compared with some other countries though the UK has not done much to boost spending – the job retention scheme is designed to support incomes whereas a VAT cut (as they did in Germany) or stimulus checks (as in the US) would help increase spending. On the other hand, UK households have been saving in the billions, with estimates upwards of £100 billion.

- **Retail sales volumes fell sharply in January, with month-on-month sales down 8.2%.** The lockdown and closure of non-essential shops has clearly had a dramatic impact as all sectors showed declines, but the worst performance came from the clothing and footwear sector which was down by nearly 35% and household goods sales fell by 19%. On the positive side, retail sales were 'only' 5.5% lower than pre-COVID levels (February 2020) showing that the impact of **this lockdown is not as great as in April 2020** when sales were down by 22% compared with February 2020.

- This third, restrictive lockdown imposed at the start of January appears to have knocked consumer confidence again, with the January **GfK consumer confidence index falling to -28,** down two points over December's figure. Both the **General Economic Situation sub-indices covering the last 12 months and the next 12 months fell** with the forecast index looking particularly bleak as it fell 9 points to -44. The only sub-index to rise was the Personal Financial Situation over the last 12 months which increased by 1 point to -8.

- Supply chain disruption at ports caused by COVID-19 restrictions and Brexit-related transport delays helped to cause the January **UK Manufacturing sector Purchasing Managers Index (PMI) to contract at the start of January before rebounding to final a reading of 54.1,** down from December's figure of 57.5. Supplier lead times also lengthened to their longest period on record, although on the positive side employment in the sector rose for the first time in 12 months.

- The January **construction sector PMI reading of 49.2 is the first decline in construction output since May 2020** as commercial and engineering activity dropped amid the latest national lockdown. Concerns about the economic outlook appear to be weighing on clients' minds and they appear to be hesitant at starting projects. Employment fell again and input cost inflation accelerated to its highest level in 2 ½ years.

- Unsurprisingly, the **UK Services PMI showed a contraction figure of 39.5 in January, although this was above a preliminary estimate of 38.8.** What's also interesting is this is significantly above the figures for last April and May 2020 when the country was in a similar lockdown. This signifies that **many businesses may be adapting better to current conditions,** improving their online offering, etc. The survey also found that **business optimism for economic growth over the coming 12 months has reached its highest level in over six years,** likely due to the successful deployment and rollout of the vaccination programme and thus a brighter outlook as the pandemic situation looks to improve.

- CPI **inflation rose to 0.7% in January,** up from 0.6% the month before and slightly above consensus forecasts of 0.6%. Inflation from items such as furniture and household goods jumped on the month, while food inflation, although negative, fell less than during the previous month. It is thought that **the increased cost of shipping and Brexit-related costs may have contributed to the increased price of larger goods** this month. The largest downward pressure on prices came from falling clothing and footwear prices once again.

- The latest Labour Force Survey (LFS) found **the unemployment rate rose again in the three months to December, to 5.1%** from 5.0% the month before. This is 1.3 percentage points higher than a year earlier and is the largest annual increase in the unemployment rate since December 2009. The employment rate meanwhile also decreased, to 75.0%, 1.5 percentage points lower than a year earlier. Once again the more timely PAYE payroll data showed that t**he number of employees has risen for the second month in a row,** increasing by 0.3% in January 2021, equivalent to around 83,000 people and suggests that the labour market has 'stopped worsening'.

- **Average earnings increased again in the three months to December, rising to 4.1%** annual growth (excluding bonuses), from 3.6% last month. Again, the ONS survey notes this strong figure is more a reflection of the fact that **those at the lower end of the wage scale have lost their jobs, thereby raising the average wage level of those still in work.** ONS estimates therefore that underlying pay growth is around 3%.

- **Interest rates were held again at 0.10%** following the latest Monetary Policy meeting earlier this month. Negative interest rates may still be in the MPC's arsenal sometime in the summer as it continues to make sure lenders are ready for such a move. But the Committee is keen to point out that this should not be used as a signal for future policy.

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

## Residential property market

### Sales Prices and Rents

- **Annual house prices rose by 6.4% in January,** according to Nationwide's latest house price index. This is down from 7.3% in December and also **marks the first time in six months where house price growth has slowed.** Month on month prices also declined by 0.3%. This slowing pace of growth will be reflecting two things: 1) house prices were rising quite quickly the same time last year following the 'Boris bounce' and 2) there will be a slowdown in demand as the stamp duty holiday is now so close that an agreed sale is unlikely to get over the line at this stage.

- The same trajectory of a slowing pace of growth was reflected in this month's **Halifax house price index as well, which recorded annual price growth of 5.4%,** down from December's 6.0%. They also report a month on month fall of 0.3%. Halifax suggests in their report that the slowing pace of growth is an early sign that 'the housing market could be running out of steam'. Nevertheless, we believe that while demand may be tapering from those who wanted to benefit from the stamp duty tax break, **there is still a large group of potential buyers who will be continuing to look for a new home as their preferences and priorities have changed during lockdown. Furthermore, the rise of homeworking and changing commuting patterns is allowing for increased flexibility and further shifting where and how people live.** We believe these sources of demand will continue for some time, well after the pandemic has ended.

- The Official House Price Index data from ONS reported annual **house price growth of 8.5% in December 2020, across both the UK and England. This marks the highest rate of house price growth since October 2014,** reflecting the strong levels of demand in the housing market by the end of the year.

- Looking at the ONS house price data in more detail, it appears that a **suburban / rural demand preference has emerged across many parts of the country** and within cities, as many had suspected was the case. In London, the outer suburban boroughs such as Brent, Merton, Waltham Forest, Richmond and Ealing are all within the top seven for house price growth last year and indeed these same boroughs have been showing these high levels of growth consistently for the last few months. The outer London boroughs as a whole reached price growth of 5.7% compared with the inner London boroughs collectively showing 3.7% growth.

- Turning to the regional Carter Jonas locations covered, and **Winchester, Bath, Cornwall, Leeds and South Oxfordshire are all posting 2020 annual house price growth in the double digits.** All our locations together have posted annual price growth averaging around 7% last year, although South Cambridgeshire and Harrogate have been languishing towards the bottom of our table for some months now, as demand here remains stable, but not as buoyant as other locations.

- There was still **significant upward pressure on house prices during January, according to RICS' latest Residential Market Survey. The report found that +50% of those surveyed saw an increase during the month;** the results show that house prices continued to rise 'firmly' in almost all parts of the UK, with London being the only exception, with respondents there, noting a fall. Looking ahead and +30% of respondents at a national level, anticipated prices will increase over the coming year.

- Rightmove reports that **average asking prices in February were 'surprisingly' up 0.5% compared with the previous month, and 3.0% over the same period one year ago.** This comes after three consecutive monthly declines in asking prices, so it seems that upward pressure on prices has resumed despite being so close to the end of the stamp duty holiday period. This upward pressure however is likely due to **demand continuing apace while the supply of new properties coming to the market falls.** The suggestion is that for many buyers, a move is not dependent on any savings from the tax break.

- HomeLet's latest report on the private rented sector notes that **the average rental price for a new tenancy in the UK is up by 2.9% compared with the same month last year. However, if London data is excluded from this figure then rents across the UK have grown by an average of 5.8%** annually. Ten of the twelve regions covered by the report showed annual increases with just Northern Ireland (-2.1%) and Greater London (-3.9%) showing rents falling. Again, this month rents across the South West and South East have jumped sharply with average annual increases of 8% and 7.1%, respectively.

- Rightmove's quarterly rental market report has found that **city centre rents fell sharply across some of the UK's largest cities, led by Inner London where they recorded an annual asking rent fall of 12.4%, Edinburgh at -10%, followed by Manchester (-5.3%), Birmingham (-4.6%) and Leeds (-4.4%).** Under further restrictions and lockdown conditions tenants appear to be fleeing city centre locations that have little to offer under the circumstances and at a time when working from home means they can locate anywhere, including cheaper, less dense locations.

- Future rental growth aspirations have returned according to the latest RICS report, with a marginally positive reading of +12% of respondents suggesting so. However, **in London the case remains that respondents fully anticipate a continued fall in rents over the coming three months,** with a net balance of -43%.

## Activity

- There was a small 2% monthly decline in mortgage approvals during December according to the Bank of England's latest data. Nevertheless, this still means there were over 103,000 approvals during the month, the second highest monthly figure in over 15 years after November's figure of 105,000. This also means that **despite the market lockdown for eight weeks earlier in 2020, there were more approvals during 2020 than the year before,** with a rise of 4%.

- Provisional data for **residential property transactions during December (HRMC) estimates that over 129,000 sales exchanged during the month, up from 114,000 in November and the highest total since September 2007.** Clearly the upcoming end of the stamp duty holiday will put pressure on agreed sales to exchange before the end of March, so we expect the next few months to also show above-average activity levels.

- The **January RICS Residential market survey pointed to a generally weakening housing market** at the start of the year, which many would have expected as the end of the stamp duty holiday gets ever closer. A net balance of **-28% of respondents reported a decline in new buyer enquiries** during the month, ending a run of seven consecutive months of positive readings for this measure. There was also a decline in new listings and new market appraisals with an accompanying **net balance of -18% of those surveyed saying there was a fall in agreed sales** in January. Near term sales expectations also remain subdued with a net balance of -29%.

- Rightmove's latest house price index report notes that buyer **demand during January was ahead of the same period one year ago,** and this was the case throughout the first week of February as well. On the other hand, **the number of new sellers coming to the market is 21% down over the same four-week period** in 2020 and this supply and demand imbalance is contributing to price rises.

- **Tenant demand increased during the three months to January,** according to the January RICS residential report, although the pace of growth has moderated. At the same time, **supply continues to constrict** the market, with landlord instructions falling for the second quarter in a row.

## **HM Treasury Forecasts for the UK Economy,** January 2021

| | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| **Official Bank Rate (%)** | 0.10 | 0.10 | 0.25 | 0.49 | 0.73 |
| **House Price Growth (annual, %)** | -1.5 | 1.6 | 2.9 | 2.6 | 2.5 |
| **CPI inflation rate (annual average, %)** | 2.0 | 2.0 | 1.8 | 1.8 | 1.9 |
| **Unemployment rate (%)** | 6.6 | 5.6 | 5.1 | 4.6 | 4.4 |
| **GDP (annual, %)** | 4.3 | 5.8 | 2.2 | 1.9 | 1.8 |
| **Average earnings growth (annual, %)** | 2.9 | 2.7 | 3.0 | 3.0 | 3.1 |

*Sources: HM Treasury Consensus Forecasts (February 2021)*

## **Select Market Indicators,** latest versus previous data

| | Current | Previous | Direction of change |
|---|---|---|---|
| **GDP monthly (month-on-month)** | 1.2% | -2.6% | ↑ |
| **Retail sales volumes (monthly % change)** | -8.2% | 0.3% | ↓ |
| **GfK Consumer Confidence Index (Dec over Nov 2020)** | -28 | -26 | ↓ |
| **IHS Markit / CIPS Manufacturing PMI** | 54.1 | 57.5 | ↓ |
| **IHS Markit / CIPS Construction PMI** | 49.2 | 54.6 | ↓ |
| **IHS Markit / CIPS Services PMI** | 39.5 | 49.4 | ↓ |
| **Inflation rate** | 0.7% | 0.6% | ↑ |
| **Interest rate** | 0.10% | 0.10% | ↔ |
| **Employment rate (to Dec 2020)** | 75.0% | 75.2% | ↓ |
| **Unemployment rate (to Dec 2020)** | 5.1% | 5.0% | ↑ |
| **Weekly earnings growth, regular pay (excl bonuses)** | 4.1% | 3.6% | ↑ |
| **Nationwide annual house price inflation** | 6.4% | 7.3% | ↓ |
| **Halifax annual house price inflation** | 5.4% | 6.0% | ↓ |
| **Official UK House Price inflation (annual)** | 8.5% | 7.1% | ↑ |
| **Rightmove House Price Index (annual, asking prices)** | 3.0% | 3.3% | ↓ |
| **HomeLet Rental Index (annual growth, UK)** | 2.9% | 2.7% | ↑ |
| **£ Sterling: $ USD** | $1.40 | $1.37 | ↑ |
| **£ Sterling: € Euro** | €1.16 | €1.13 | ↑ |
| **Brent Crude (USD)** | $62.56 | $55.84 | ↑ |
| **Gold (USD)** | $1,773.30 | $1,854.18 | ↓ |
| **FTSE 100** | 6,618.38 | 6,678.46 | ↓ |
| **UK 5 Year Gilt Yield** | 0.145 | -0.053 | ↑ |

*Sources: ONS (unless otherwise indicated) (final six indicators retrieved on 19 February)*

## **Official House Price data,** HM Land Registry, December 2020

*Sources: HM Land Registry*

| CJ Regional Location | Average Price | Monthly Change (%) | Annual Change (%) |
|---|---|---|---|
| Winchester | £473,190 | 7.1% | 15.9% |
| Bath and North East Somerset | £374,959 | 0.6% | 12.4% |
| Cornwall | £262,939 | 1.7% | 11.5% |
| Leeds | £209,892 | 2.5% | 10.8% |
| South Oxfordshire | £448,976 | 1.3% | 10.6% |
| Wiltshire | £298,659 | 2.4% | 9.7% |
| West Oxfordshire | £351,083 | 1.5% | 8.8% |
| Cambridge | £466,564 | 2.8% | 8.1% |
| Somerset | £254,740 | 0.9% | 7.8% |
| Devon | £280,540 | 0.5% | 7.0% |
| Dorset | £309,427 | 1.8% | 6.5% |
| Suffolk | £261,830 | 0.7% | 6.3% |
| West Berkshire | £370,628 | 0.6% | 6.2% |
| York | £267,932 | -0.6% | 6.0% |
| Northamptonshire | £240,668 | 0.7% | 5.9% |
| Oxford | £443,509 | 2.7% | 5.5% |
| Cambridgeshire | £304,743 | 0.9% | 3.8% |
| Northampton | £221,393 | 1.4% | 3.4% |
| Vale of White Horse | £369,171 | -1.2% | 3.1% |
| Harrogate | £294,690 | 0.1% | 1.3% |
| South Cambridgeshire | £380,877 | -1.6% | 0.6% |

| UK Region | Average Price | Monthly Change (%) | Annual Change (%) |
|---|---|---|---|
| North West | £183,727 | 2.5% | 11.2% |
| Wales | £184,195 | 2.3% | 10.7% |
| East Midlands | £215,046 | 2.8% | 10.6% |
| Yorkshire and The Humber | £182,907 | 1.1% | 10.4% |
| South West | £282,388 | 2.3% | 10.2% |
| West Midlands region | £216,950 | 1.9% | 9.4% |
| North East | £141,154 | 1.9% | 9.2% |
| **United Kingdom** | **£251,500** | **1.2%** | **8.5%** |
| **England** | **£269,150** | **1.5%** | **8.5%** |
| East of England | £310,912 | 2.4% | 7.0% |
| South East | £341,007 | 0.1% | 6.1% |
| London | £496,066 | -1.1% | 3.5% |

| London | Average Price | Monthly Change (%) | Annual Change (%) |
|---|---|---|---|
| London | £496,066 | -1.1% | 3.5% |
| Prime Central London | £1,109,355 | -1.6% | 0.5% |
| South West London | £681,660 | -1.0% | 9.1% |

## **Official House Price data,** HM Land Registry, December 2020

*Sources: HM Land Registry*

| London Borough | Average Price | Monthly Change (%) | Annual Change (%) |
|---|---|---|---|
| Brent | £496,316 | -4.1% | 16.5% |
| Merton | £565,213 | 0.7% | 14.2% |
| Hackney | £623,031 | 4.0% | 13.6% |
| Waltham Forest | £485,676 | 2.8% | 10.4% |
| Richmond upon Thames | £709,148 | 1.6% | 8.8% |
| Lewisham | £447,783 | 1.0% | 8.4% |
| Ealing | £501,051 | -1.2% | 6.8% |
| Sutton | £398,639 | 1.4% | 6.8% |
| Barking and Dagenham | £317,947 | 3.6% | 6.1% |
| Newham | £382,752 | 0.8% | 6.0% |
| Redbridge | £445,546 | 0.8% | 6.0% |
| Harrow | £472,369 | 0.8% | 5.6% |
| Lambeth | £548,660 | -0.4% | 5.4% |
| Kensington And Chelsea | £1,288,641 | -3.0% | 5.3% |
| Bromley | £460,361 | 1.1% | 5.1% |
| Havering | £382,490 | 1.6% | 4.9% |
| Bexley | £354,466 | 1.1% | 4.7% |
| Enfield | £415,126 | 2.4% | 4.1% |
| Kingston upon Thames | £508,800 | 0.3% | 4.0% |
| Tower Hamlets | £471,445 | -1.3% | 3.8% |
| Hillingdon | £419,504 | -0.4% | 3.8% |
| London | £496,066 | -1.1% | 3.5% |
| City of London | £784,006 | -0.6% | 3.4% |
| Croydon | £383,293 | 0.6% | 3.0% |
| Wandsworth | £618,531 | -1.5% | 2.3% |
| Barnet | £534,719 | -0.1% | 2.3% |
| Greenwich | £407,938 | -0.7% | 2.1% |
| Southwark | £519,142 | -1.8% | 2.1% |
| Haringey | £568,561 | -2.8% | 2.0% |
| Islington | £653,891 | -3.6% | 2.0% |
| Hammersmith and Fulham | £717,300 | -3.1% | 0.6% |
| Hounslow | £412,833 | -3.1% | 0.2% |
| Camden | £803,908 | -4.0% | -1.3% |
| City of Westminster | £930,070 | 0.5% | -4.3% |
| **Outer London** | **£447,187** | **0.5%** | **5.7%** |
| **Inner London** | **£594,749** | **-1.0%** | **3.7%** |

## **HomeLet Rental Index**, January 2021

| Region | Rent (£pcm) | Monthly Change (%) | Annual Change (%) |
|---|---|---|---|
| South West | £919 | -0.5% | 8.0% |
| East of England | £979 | -0.4% | 7.9% |
| South East | £1,094 | 0.8% | 7.1% |
| East Midlands | £698 | 0.6% | 6.4% |
| West Midlands | £741 | 0.8% | 6.0% |
| UK (excluding London) | £839 | 0.1% | 5.8% |
| Yorkshire & Humberside | £680 | -0.3% | 4.5% |
| Wales | £675 | -0.6% | 3.8% |
| UK | £981 | 0.2% | 2.9% |
| Scotland | £683 | -0.6% | 2.6% |
| North West | £775 | 0.4% | 1.4% |
| North East | £540 | 0.2% | 0.0% |
| Northern Ireland | £648 | -0.5% | -2.1% |
| Greater London | £1,563 | 0.4% | -3.9% |

*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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