Carter Jonas

RESIDENTIAL BRIEFING NOTE

January 2021

Market Overview

As we find ourselves in yet another, tightly restricted lockdown, the continued production and roll-out of the vaccination programme, together with the containment of the current pandemic, will determine what rate and shape the economic recovery will be in 2021. Undoubtedly this current lockdown will see another fall in output however unlike the first lockdown more industries have been allowed to remain fully operating (including the housing market and construction). What's more, November's fall in GDP was not as sharp as many had expected indicating that businesses have learned to adapt well to COVID restrictions and lockdown measures.

The housing market continued to perform well during December with strong mortgage activity and sales volumes. With the SDLT holiday coming to an end in the next eight weeks but lockdown restrictions still in place, we will begin to see whether it was the stamp duty tax savings or a reaction to the pandemic that has been behind the strong housing market for the last eight months.

Executive Summary

- *GDP output fell by 2.6% during November when England was in the midst of lockdown 2.0. What was perhaps surprising was how resistant to lockdown restrictions many businesses now seem to be; the contraction was not as severe as market expectations.*
- *The services and manufacturing sectors both posted monthly increases in their respective December Purchasing Managers Indices (PMI), largely off the back of the November slowdown. The construction PMI showed virtually no change.*
- *PAYE estimates for December indicate that payrolled employees grew by 0.2%, the first time this measure has seen growth since February 2020. Though the unemployment rate still rose to 5.0% in the three months to November.*
- *On the face of it, wage growth appears to have grown solidly with November's data indicating a rise of 3.6% but closer inspection shows that this largely reflects a high number of job losses at the lower-paid end rather than any 'real' rise.*
- *Both Nationwide and Halifax again report some very strong annual house price growth at 7.3% and 6.0% respectively. Halifax's figure was down from November although the bank notes a strong market this time last year following the December election.*
- *Rightmove also reported annual asking prices rose by 3.3% in their January report, down from December's robust 6.6% but again, this is compared with the same time last year, in the midst of the 'Boris bounce'.*
- *Official house price index data from the ONS (November) echoed what the other leading indices had already confirmed; at 7.6% annual house price growth, the market was exceptionally strong during the last quarter of 2020.*

UK economic backdrop

- **GDP fell by 2.6% month on month in November**, although this was above consensus forecast of -4.6%. The economy during November was of course in the middle of the second lockdown and so the fact that GDP shrunk only 'modestly' suggests that **many businesses have adapted better to lockdown conditions**, than earlier in 2020. What's more, the manufacturing and construction industries were allowed to remain open, unlike the first time and this was reflected in the data as construction output actually grew on the month (+1.9%).

- **Retail sales volumes rose by only 0.3% in December (month-on-month), below market consensus figures of 1.0%** and a rather dull recovery considering it was both the holiday season and many parts of the country had opened back up following the November lockdown. But clearly **the rapid spread of coronavirus that appeared again in mid-December and the resultant local restrictions put a dampener on what could have been a strong upturn**. Clothing sales rose by nearly 22% in December, following the monthly fall of 19.5% reported the month before. Food store sales on the other hand declined by 3.4% on the month, partly attributed to the rise that this sector saw in November when some consumers were probably stockpiling.

- **Consumer confidence jumped seven points to -26 during December** according to GfK's report, up from -33 the previous month. Consumers were **clearly buoyed by the vaccination programme** getting underway and this was reflected in a strong boost of 15 points in the 'General Economic Situation over next 12 months' sub-measure. All five sub-measures rose on the month with the 'Personal Financial Situation over the next 12 months' still showing the highest score of all five, at '3'.

- UK **manufacturing rose again in December to 57.5** up from 55.6 in November. The latest IHS Markit / CIPS Purchasing Managers Index (PMI) points to **the steepest expansion of the sector in over three years** with rising new orders, particularly as some clients brought forward orders to guard against potential disruption caused by Brexit at the end of December. Noteworthy was the fact that port delays and other logistics disruptions means that **supply-chain delays were now at their longest since the survey began**.

- The **construction sector PMI meanwhile changed little over November with a reading of 54.6**, down slightly from 54.7. The figure **reflects a sharp rise in the house building sector** while commercial work eased to its lowest level since the recovery began in June. Unsurprisingly civil engineering works contracted in the month.

- Finally, the UK **Services PMI was recorded as 49.4 during December, up from 45.8** the month prior and reflects the fact that some areas came out of lockdown during the month with the resumption of services in some cases. Nevertheless, the figure being below 50 means the sector was officially in contraction as client **demand fell** and restrictions were still in place in many parts of the country. Total **new business declined** for the third month in a row and **export sales decreased** sharply due to heightened Brexit uncertainty.

- CPI **inflation increased slightly to 0.6% in December**, up from 0.3% in November with large upward contributions coming from a rise in recreation and culture costs as well as strong upward pressure from transport costs. Downward pressure on inflation came from a fall in food and non-alcoholic beverages prices. Interestingly, the latest inflation report notes that in the last ten years the largest contribution to rising inflation has come from fuel and utility prices. However, this changed **in April 2020** when falling oil prices coincided with a surge in the purchase of items such as computers, toys and gaming equipment due to restrictions caused by the pandemic; the **recreation and culture category has therefore been the largest contributor to inflation**, since then.

- **Unemployment rose to 5.0% in the three months to November**, up from 4.9% the previous month but below consensus expectations, according to the latest Labour Market Survey. Redundancies also rose by 168,000 during the quarter to reach a record high however early estimates from a weekly Labour Force Survey shows that **the rate of redundancies has now dropped from a peak** in September. **PAYE records also show some slightly positive news as the number of payrolled employees appears to have grown by 0.2%** in December compared with November, increasing for the first time since February 2020.

- Annual **growth in employees pay grew again in November, rising to 3.6%** annually, up from 2.8% the previous month. However, this is probably **being driven by a fall in the proportion of lower-paid employee jobs** rather than any real rise in wages. The Labour Market Survey estimates that underlying wage growth is more likely to be below 2%, if the effect of redundancies in lower-paid jobs is removed.

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

Residential property market

Sales Prices and Rents

- House prices continued to grow strongly in December, according to **Nationwide's index. With an annual growth rate of 7.3% this is their highest recorded rate**

in over six years and reflects a monthly rise of 0.8%. All regions of the UK experienced robust price growth during the last quarter of the year, ranging from a 'low' of 3.2% in Scotland to a high of 8.6% across the East Midlands, with London posting a rate of 6.2%.

- The **Halifax house price index meanwhile showed house prices grew by 6.0% annually**, in December. This was lower than November's four-year high of 7.6% and is perhaps the first indication that the current robust run of price growth may be easing. On the other hand, the Bank points out that December 2019 was a particularly strong period for house prices, following the election early in the month, easing some pent-up political uncertainty at the time.

- **Official House Price Index data** for November corroborates what the other leading indices had already produced for the month, that the market was very active, and demand was high, and **7.6% average annual house price growth** confirms this. This is the ONS's highest annual price growth figure since 2016 and again reflects **another strong monthly rise of 1.2%** and the sixth consecutive monthly increase of over 1%.

- Across our regional Carter Jonas office locations annual price growth is varied, with a high of 14.5% in Bath and North East Somerset, 9.0% in York to a low of 1.7% in West Oxfordshire and 0.1% in Oxford itself, with a wide range of figures in between. On a regional basis **Yorkshire and The Humber as well as London top the table at price growth of 9.7% annually, contradicting the theory that there has been a flight out of big cities over the last few months**.

- Looking at **London in detail and much like our regional data, the price growth across the 33 London boroughs is incredibly varied** – Barking and Dagenham as well as Barnet posted price falls during November of nearly 1% while the outer London boroughs of Brent posted house price growth of nearly 25%(!) and Merton at 15%. Kensington and Chelsea reported annual growth of nearly 30% while the neighbouring borough of Westminster indicates that prices fell by over 4%. Some very large house price sales will be affecting some of the data quite severely (certainly this will be the case in Kensington and Chelsea) but otherwise **it is becoming increasingly difficult to predict where and how strong the levels of buyer demand are right now**.

- December's **RICS Residential Market Survey** showed that the market was still strong during the month with **+65% of respondents finding that house prices rose over the last three months**, albeit this is down slightly from November's +66% figure. London is the only region where house price inflation appears 'muted' with the latest net balance showing just +7%. Looking ahead and contributors note that **the pace of house price inflation will fall sharply with the three-month expectation falling to -13%**, the 'softest' figure since May 2020. On the other hand, the longer-term outlook finds respondents more positive with+24% anticipating prices will rise over the next 12 months.

- **Average asking prices were reported to have risen by 3.3% (annually) during January, according to Rightmove's** latest report, down markedly from December's punchy growth of 6.6%. Again, this may reflect the fact that the same month last year was buoyant and positive, off the back of the December 2019 election. For the second month in a row, asking prices are down 0.9% on a monthly basis, as sellers continue to drop prices to lure buyers into a sale before the stamp duty holiday ends.

- Latest data from the private rented sector finds that again this month there is a two-speed rental market across the UK. According to HomeLet **London rents were reported to have declined by an annual average of 4.5%** and by 1.3% in just the month of December. While across the **South West rents have reportedly increased by a staggering 10% through the year**, reflecting how popular the rural area is becoming, not to mention how well it has fared overall, during the pandemic. On average, **rents across the UK have risen by 5.7% outside of London**.

- Staying with the lettings market and the December RICS residential survey reports that respondents felt that rental growth in the short term (three-month horizon) will rise but the clear exception to this is those **in London where -47% of respondents expected that rents in the capital will decline over the coming three months**.

Activity

- The Bank of England recorded nearly **105,000 mortgage approvals during November, the highest figure since 2007 and 61% more than the same month one year prior**. As the end of the stamp duty holiday looms closer there are undoubtedly buyers now scrambling to find their new home in time; December may then see yet more approvals after which we expect they may begin to decline, unless the Government decides to extend the stamp duty holiday (we have argued they should do so, at least for first time buyers in our latest report found **here**).

- 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 **RICS Residential Market Survey for December notes that while activity in the market is very positive on nearly all indicators, the pace of growth has cooled** compared with the summer and autumn market. The new buyer demand indicator is down from +26% in November to +15% in this latest reading, the fifth consecutive month of declining pace. New instructions stood at +7% while agreed sales read +18%, albeit this is down markedly from the +60% in the autumn. The near-term sales expectations have fallen to -22% from -6% in November and is the weakest figure since April 2020.
- Rightmove reports **that visits to their portal during January were up by 33% compared with the same month one year prior**, while agreed sales were up 9%. This means that buyer activity is exceeding the same month one year ago, which is promising, considering that was when the market was experiencing the 'Boris bounce'. Rightmove further reports that the number of **prospective buyers contacting agents in the first two weeks of January was up 12% over the same period one year ago**.
- The RICS market survey found that **tenant demand in the lettings market picked up** in December with +15% of contributors seeing an increase while on the other hand **new landlord instructions showed that -12% respondents reported a decline**.
- ARLA Propertymark's November report on **the private rented sector pointed to a mainly steadying rental market**. The report found that the average number of new prospective tenants fell from 88 in October to 65 in November although this is very much in line with the same time last year and reflects the time of year. On the supply side ARLA finds that the number of properties managed per agent branch rose but only very slightly from 213 in October to 214 in November. This is an all-time high for the month of November with the previous record being November 2019.

HM Treasury Forecasts for the UK Economy, January 2021

	2020	2021	2022	2023	2024
Official Bank Rate (%)	0.10	0.10	0.53	0.78	0.93
House Price Growth (annual, %)	+5.8	-1.7	0.9	3.0	3.9
CPI inflation rate (annual average, %)	0.6	2.0	2.2	2.1	2.1
Unemployment rate (%)	5.3	6.4	6.1	5.1	4.7
GDP (annual, %)	-10.6	4.4	4.3	2.5	2.1
Average earnings growth (annual, %)	1.2	2.4	2.7	3.3	3.5

Sources: HM Treasury Consensus Forecasts (2020 and 2021: January 2021; 2022–2024: November 2020)

Select Market Indicators, latest versus previous data

	Current	Previous	Direction of change
GDP quarterly (month-on-month)	-2.6%	0.6%	↓
Retail sales volumes (monthly % change)	0.3%	-3.8%	↑
GfK Consumer Confidence Index (Dec over Nov 2020)	-26	-33	↑
IHS Markit / CIPS Manufacturing PMI	57.5	55.6	↑
IHS Markit / CIPS Construction PMI	54.6	54.7	↓
IHS Markit / CIPS Services PMI	49.4	45.8	↑
Inflation rate	0.6%	0.3%	↑
Interest rate	0.10%	0.10%	↔
Employment rate (to Nov 2020)	75.2%	75.2%	↔
Unemployment rate (to Nov 2020)	5.0%	4.9%	↑
Weekly earnings growth, regular pay (excl bonuses)	3.6%	2.8%	↑
Nationwide annual house price inflation	7.3%	6.5%	↑
Halifax annual house price inflation	6.0%	7.6%	↓
Official UK House Price inflation (annual)	7.6%	5.4%	↑
Rightmove House Price Index (annual, asking prices)	3.3%	6.6%	↓
HomeLet Rental Index (annual growth, UK)	2.7%	2.9%	↓
£ Sterling: $ USD	$1.37	$1.34	↑
£ Sterling: € Euro	€1.13	€1.10	↑
Brent Crude (USD)	$55.84	$50.96	↑
Gold (USD)	$1,854.18	$1,863.88	↓
FTSE 100	6,678.46	6,752.21	↓
UK 5 Year Gilt Yield	-0.053	-0.017	↑

Sources: ONS (unless otherwise indicated) (final six indicators retrieved on 25 January)

Official House Price data, HM Land Registry, November 2020

Sources: HM Land Registry

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
Bath and North East Somerset	£382,149	4.7%	14.5%
Cornwall	£260,586	3.0%	9.6%
York	£276,971	4.3%	9.0%
Leeds	£203,868	1.1%	8.0%
Vale of White Horse	£378,022	0.5%	7.0%
Suffolk	£262,430	2.5%	7.0%
Devon	£281,729	1.0%	6.6%
South Oxfordshire	£438,087	-2.8%	6.4%
South Cambridgeshire	£397,134	1.6%	6.2%
Somerset	£251,099	0.6%	5.9%
Northamptonshire	£239,345	1.1%	5.0%
West Berkshire	£363,077	-0.3%	4.8%
Wiltshire	£285,173	-0.2%	3.9%
Dorset	£299,552	1.7%	3.4%
Cambridgeshire	£302,602	0.4%	3.1%
Northampton	£220,163	2.0%	2.9%
Harrogate	£297,513	1.8%	2.6%
Cambridge	£445,376	0.5%	2.2%
Winchester	£421,796	-1.8%	1.8%
West Oxfordshire	£338,696	-2.9%	1.7%
Oxford	£420,590	-4.9%	0.1%

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
Yorkshire and The Humber	£180,856	1.9%	9.7%
London	£513,997	4.0%	9.7%
North West	£180,280	0.2%	8.5%
South West	£278,391	1.1%	8.5%
North East	£140,248	2.6%	8.3%
England	**£266,742**	**1.2%**	**7.6%**
United Kingdom	**£249,633**	**1.2%**	**7.6%**
East Midlands	£208,662	0.6%	7.1%
Wales	£180,229	2.0%	7.0%
West Midlands region	£213,974	1.0%	6.9%
South East	£342,271	1.2%	6.2%
East of England	£302,624	-0.3%	4.8%

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£513,997	4.0%	9.7%
Prime Central London	£1,208,639	6.9%	12.2%
South West London	£699,026	1.8%	7.3%

Official House Price data, HM Land Registry, November 2020

Sources: HM Land Registry

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Kensington And Chelsea	£1,507,130	12.1%	28.6%
Brent	£540,086	2.8%	23.9%
City of London	£916,239	12.4%	18.6%
Merton	£571,988	3.7%	14.9%
Newham	£399,671	4.0%	10.0%
London	£513,997	4.0%	9.7%
Tower Hamlets	£494,416	3.8%	9.6%
Redbridge	£450,574	3.2%	9.6%
Hackney	£607,105	1.5%	9.4%
Richmond upon Thames	£707,773	2.0%	9.2%
Haringey	£605,415	2.1%	9.1%
Islington	£682,111	-1.6%	8.7%
Southwark	£547,301	5.0%	7.5%
Lambeth	£551,499	1.0%	6.7%
Sutton	£400,188	3.0%	6.6%
Hillingdon	£433,968	4.2%	6.6%
Hammersmith and Fulham	£750,380	2.0%	6.5%
Waltham Forest	£465,314	-0.7%	6.4%
Wandsworth	£638,926	1.5%	6.2%
Bexley	£353,083	1.8%	6.0%
Ealing	£500,701	0.3%	5.9%
Hounslow	£431,224	2.5%	5.3%
Harrow	£474,528	2.6%	5.2%
Lewisham	£432,800	-1.0%	4.8%
Bromley	£456,750	2.7%	4.6%
Enfield	£407,095	0.0%	3.7%
Croydon	£379,880	0.0%	3.2%
Kingston upon Thames	£506,339	-0.2%	3.2%
Havering	£371,474	0.1%	1.7%
Camden	£840,770	1.2%	0.8%
Greenwich	£406,967	-0.1%	0.2%
Barnet	£526,127	-1.4%	-0.8%
Barking and Dagenham	£301,944	-1.2%	-0.8%
City of Westminster	£910,148	-0.6%	-4.2%
Outer London	**£446,123**	**1.2%**	**5.4%**
Inner London	**£612,547**	**2.1%**	**7.2%**

HomeLet Rental Index, December 2020

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
South West	£924	1.5%	10.0%
East of England	£983	1.5%	7.7%
South East	£1,085	1.9%	6.1%
UK (excluding London)	**£838**	**1.2%**	**5.7%**
Scotland	£687	0.0%	5.0%
West Midlands	£735	0.3%	5.0%
East Midlands	£694	0.7%	4.8%
Yorkshire & Humberside	£682	0.7%	4.1%
Wales	£679	0.9%	4.0%
UK	**£979**	**0.5%**	**2.7%**
North West	£772	0.8%	2.1%
Northern Ireland	£651	0.8%	-2.3%
North East	£539	0.6%	-2.5%
Greater London	£1,556	-1.3%	-4.5%

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.

Residential Research

Leslie Schroeder
Head of Residential Research
020 7529 1538
leslie.schroeder@carterjonas.co.uk

020 7518 3200
One Chapel Place, London W1G 0BG