

RESIDENTIAL BRIEFING NOTE

July 2021

Market Overview

In the month when tennis and football had many of us temporarily forgetting about COVID-19, the growing number of cases and a slowing pace of economic output growth were here to remind us that all is not forgotten; economic output is estimated to have grown by 0.8% in May, down from April's robust 2.3%. Nevertheless, this is the fourth consecutive month of growth and there is very strong data from the Purchasing Managers Indices to suggest that all sectors continue to expand their levels of output.

*Deloitte's latest **survey of CFOs** cites three main issues of concern across the business community: COVID-19, climate change and a rising unease over increased operating costs now and over the next 12 months. This last point has probably already started, with inflation moving from 0.7% in March (the time of the last survey) to 2.1% by May. All three main sectors of manufacturing, services, and construction have noted an increase in the rate of input costs, with underlying issues of supply shortages and transport bottlenecks mostly to blame. Most analysts expect these rises to continue and CPI inflation is now expected to reach 4% by the end of 2021, according to Capital Economics, and 2.9% consensus forecasts (HM Treasury).*

Executive Summary

- GDP grew by 0.8% in May, with the reopening of restaurants and pubs leading to a jump in accommodation and food services activities output by 37.1% on the month.
- Retail sales volumes declined 1.4% between April and May 2021, but this followed the strong increase in April when non-essential retail restrictions were eased.
- This month the three Purchasing Managers Indices (PMI's) continued to report strong levels of input cost inflation, with some showing 13-year record highs. This has already translated into selling price inflation in some sectors and we expect more to come.
- CPI inflation reached 2.5% in June, its highest rate since August 2018.
- Average earnings are reported to have risen by an unusually high 6.6%, up from 5.7% last month. However, once pandemic-related effects are factored in the figure is more likely somewhere between 3.2-4.4%.
- Latest figures show unemployment remained unchanged at 4.8% while the number of payrolled employees rose again in June, up by 356,000.
- Nationwide reported another punchy house price growth figure of 13.4% in June, the highest recorded in over 17 years. On the other hand, Halifax recorded a slight decline in the pace of growth in June, to 8.8% while the official ONS data (for May) shows annual growth rate of 10%.
- The pace of growth in asking prices declined slightly in July, to 5.7% annually from 7.5% in June, according to Rightmove. On a monthly basis though asking prices rose by 0.7%, the highest July growth figure since July 2007.
- The private rental market continues to see a sharp rise in new tenant enquiries, according to the RICS. This is at the same time as new landlord instructions are down, fuelling the latest rental price rises which are now being recorded in all regions of the UK.

UK economic backdrop

- Monthly GDP grew by 0.8% in May, down from 2.3% in April but is the fourth consecutive month of growing output levels. Current data shows that economic output is still 3.1% below pre-pandemic levels (February 2020). Accommodation and food services activities grew by a tremendous 37.1% in May as restaurants and pubs were allowed to reopen. A global shortage of microchips however has disrupted car production and output in the transport equipment sector fell by a chunky 16.5% as a result.
- Following April's sharp rise in retail sales it is not entirely unexpected that May's figures show a monthly fall of 1.4%. The largest contribution to the monthly decline came from food store sales where volumes fell by 5.7%; this was probably due to consumers getting out to more restaurants and bars as hospitality restrictions eased during the month. The proportion of retail sales done online also declined in May, however compared with February 2020 the value of total online retail sales was 58.8% higher.
- Consumer confidence remained stable in June, according to GfK's monthly index. With an overall reading of -9 this is unchanged over May's figure, although of the five sub-index figures four moved up in comparison to May, including the Personal Finance measure (both forward and backward looking) and the Major Purchase measure. All of this points to a strengthening sense of confidence amongst consumers, who will be in a good position to spend and boost the economy over the coming months.
- The UK's manufacturing Purchasing Managers Index (PMI) fell slightly to 64.2 in June, down from May's record high of 65.6. Still, this is the second-highest ever recorded figure and shows the sector is still expanding rapidly as both output and new orders rose amid a surge in demand due to the loosening of pandemic-related restrictions. The index also showed jobs growth continuing as firms scale-up their workforce but once again input cost prices rose due to material shortages across the globe. Cost inflation is now at record levels and this is expected to result in a rise in manufacturers' own selling prices, further contributing to overall CPI inflation growth.
- The latest Construction PMI shows more growth with the index rising to 66.3 in June, the strongest rate in 24 years. Activity in the housing market increased at its fastest pace since November 2003 while commercial work also rose at its strongest rate in 23 years. Jobs growth also remains at one of its highest levels in over seven years but delivery times are now the longest ever recorded. Purchasing price growth also rose at a record pace with severe shortages of construction products and materials being cited across the industry.
- The IHS Markit / CIPS Services sector PMI declined only slightly to 62.4 in June, from 62.9 in May. This is still the second-highest reading in over six years and points to strong expansion in the sector as new order growth remained close to May's record levels, while the rate of jobs growth has been recorded as only slightly lower than the record set seven years ago. As with the other sectors, input cost inflation rose to its highest level for 13 years which translated into record selling price inflation.
- As many had anticipated, CPI inflation rose again in the 12 months to June, moving from 2.1% in May to 2.5% currently. The largest upward contribution came from transport cost increases, as we had already begun to see in many of the industrial sectors. This month's inflation has also been impacted by the downward fall in prices experienced in June 2020 when the country was still in varying degrees of lockdown restrictions. Price movements for food, second-hand cars, clothing and footwear as well as eating and drinking out are the main reasons for higher costs this year, but that is compared with a low base last year.
- The labour market continues to recover from the effects of the pandemic, with the number of payrolled employees rising again in June, by 356,000. On a national level this figure is still below pre-pandemic numbers, however some regions are now above pre-pandemic levels including the North East, North West and East Midlands. In the three months to May the employment rate has increased to 74.8% (from a reweighted and revised April figure of 74.7%) while the unemployment rate remained unchanged at 4.8%.
- Average earnings appeared to accelerate, rising to 6.6% in the three months to May, up from 5.7% the previous month. However, these figures are slightly misleading as they are now compared with the start of the pandemic last year (a base effect) when earnings were first pushed down, while also being pushed down by those in low paid jobs who were more likely to lose their jobs during the pandemic (compositional effects). Stripping out these two impacts means the underlying wage growth rate is probably more likely between 3.2% and 4.4%.

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

Residential property market

Sales Prices and Rents

- House prices rose sharply again in June, with average UK growth of 13.4% (annually) according to Nationwide. This marks the highest annual growth since November 2004, although on a monthly basis the pace of growth seems to be easing with 0.7% recorded in June, compared with 1.7% in May and April's punchy 2.3%. On a regional basis all areas of the country continued to see an acceleration in annual price growth (Q2 2021 versus Q2 2020), including Yorkshire and the Humber, which posted a strong 13% increase, followed by the East and West Midlands at 12.2% each. The 'worst' performing areas were London and the surrounds ('Outer Met') but these areas also posted strong figures of 7.3% and 8.2%, respectively.
- By comparison, Halifax has reported annual house price growth of 8.8% in June, down from May's 14-year high 9.6%. This makes an overall average house price of £260,358 following a fall of 0.5% during June, which the bank notes is the first monthly fall since January. It is clearly too early to say but this may be the first signs of an easing in the pace of house price inflation, now that the tapered phasing-out of the stamp duty holiday has started.
- According to official ONS data UK house prices rose by 10.0% annually in May, up from (a revised) 9.6% in April. On a monthly basis this means prices rose by an average of 0.9% across the UK, and +0.4% in England.
- Prices across the northern regions increased the most in the year to May, with the North West (15.2%), Wales (13.3%), the North East (11.8%) and East Midlands (11.0%) top of the table while areas across the south are again at the bottom with London posting the 'lowest' growth of 5.2% this month.
- Across our Carter Jonas office locations nearly half are posting double digit growth with Oxford (16.1%), Somerset (13.7%), Leeds (13.6%) and Cornwall (12.8%) leading the pack. In all, our locations are averaging growth rates of 9.7% which is exactly in line with the national (England) average this month.
- In London there continues to be a huge divide between the inner boroughs and the suburban and outer London locations, in terms of annual price growth. Ten of the 13 inner London boroughs are at the bottom of the price growth list this month with four locations showing price declines including -10.8% in Kensington and Chelsea, -4.4% in Hackney and -3.3% in Camden. With the exception of Hammersmith and Fulham the top ten locations for house price growth in London are the more traditionally suburban areas such as Waltham Forest (9%), Ealing (7.6%) and Bromley (14.1%).
- The RICS June residential market survey also points to robust price growth with a national net balance of +83% of respondents citing an increase. The report goes on to say that many of the responses pointed towards price growth being largely due to the lack of supply of available properties. +56% of respondents felt that house price growth would continue over the next 12 months, and this was across all regions.
- The pace of growth in asking prices softened in July, with Rightmove reporting annual growth of 5.7%, down from 7.5% last month. On a monthly basis prices are up by 0.7% (the largest July increase since July 2007), leading to a national average asking price of £338,447. Rightmove reports that this means asking prices have risen by an average of £21,389 in just the last six months.
- HomeLet has reported rental growth in London for the first time in over 12 months, with both monthly and annual increases reaching 1.5% in June 2021, across the capital. However, with 12 months of falling rents it still means that average rents are lower than they were pre-COVID, with rents now the same as they were in June 2019. Outside London however rents continue to rise rapidly, with a UK-wide average (excluding London) of 8.0% annual growth. Two areas are posting double-digit rises including the South West where rents are reportedly rising an average of 10.5% annually, and Wales, at 10.4%.
- Survey respondents in the latest RICS report predict 'widespread rental growth going forward' as a result of the lack of new supply and continuing tenant demand. Rental growth projections of +3% is expected over the next 12 months, with London's predicted growth now being 'modestly positive'.
- Rightmove's Q2 Rental Trends Tracker notes that national asking rents outside London have reached an average level of over £1,000, for the first time ever. This means that rents outside the capital are now 6.2% higher than the same period last year, while London rents are down 3.1% annually.

- The Rightmove report goes on to note that some city centre rents which had reported price falls late in 2020 and earlier this year, are now beginning to recover, with signs that renters are now beginning to return to these markets again.

Activity

- The Bank of England reported another rise in mortgage approvals during May, with nearly 88,000 approvals during the month, reflecting a 1% increase over April. May's figure is also 34% higher than the average for same month over the last five years, and being so close to the stamp duty deadline (there is little chance of getting an agreed sale over the line by this point) we continue to believe that demand will hold up even when the tax holiday ends.
- On the other hand, actual recorded property transactions declined slightly between April and May, down 4% to 115,000. As with mortgage approvals data though, sales transactions are also well above the long-term average by around 18%. June is likely to see another surge in transactions trying to get over the line before the end of the SDLT holiday, although probably not quite to the same degree as March when nearly 185,000 sales were recorded.
- RICS reports the fourth consecutive month showing an increase in new buyer enquiries with a June net balance of +14%, although this is markedly down from +43% back in April. The report goes on to say that this easing has been reported across all regions of the UK. Meanwhile, the net balance for new instructions has come in at -34%, a further decline from -24% in May, and further exacerbating the demand / supply imbalance.
- RICS reports that the lettings market showed a further acceleration in tenant demand during June with +60% of respondents citing a rise in enquiries, while -32% noted a decline in new landlord instructions, again indicating that the supply demand gap in the lettings market is worsening.
- Rightmove's Q2 rental tracker notes that record tenant demand has led to an average of just 21 days to let out a property. The fast pace of the market means there are now 36% fewer rental properties available compared with the same period last year.

HM Treasury Forecasts for the UK Economy, July 2021

	2021	2022	2023	2024	2025
Official Bank Rate (%)	0.11	0.23	0.63	0.93	1.25
House Price Growth (annual, %)	3.7	1.6	1.8	2.9	2.8
CPI inflation rate (annual average, %)	2.9	2.0	2.1	2.1	2.0
Unemployment rate (%)	5.4	4.7	4.7	4.4	4.3
GDP (annual, %)	7.1	5.4	2.1	1.6	1.6
Average earnings growth (annual, %)	4.6	2.6	3.3	3.5	3.3

Sources: HM Treasury Consensus Forecasts (2021, 2022: July 2021, all others: May 2021)

Select Market Indicators, latest versus previous data

	Current	Previous	Direction of change
GDP monthly (month-on-month)	0.8%	2.3%	↓
GfK Consumer Confidence Index	-9	-9	↔
IHS Markit / CIPS Manufacturing PMI	64.2	65.6	↓
IHS Markit / CIPS Construction PMI	66.3	64.2	↑
IHS Markit / CIPS Services PMI	62.4	62.9	↓
Inflation rate (CPI)	2.5%	2.1%	↑
Interest rate	0.10%	0.10%	↔
Employment rate	74.8%	74.7%	↑
Unemployment rate	4.8%	4.8%	↔
Weekly earnings growth, regular pay (excl bonuses)	6.6%	5.7%	↑
Nationwide annual house price inflation	13.4%	10.9%	↑
Halifax annual house price inflation	8.8%	9.5%	↓
Official UK House Price inflation (annual)	10.0%	9.6%	↑
Rightmove HPI (annual asking prices)	5.7%	7.5%	↓
HomeLet Rental Index (annual growth, UK)	5.9%	4.0%	↑
£ Sterling: \$ USD	\$1.38	\$1.41	↓
£ Sterling: € Euro	€1.17	€1.16	↑
Brent Crude (USD)	\$71.64	\$74.24	↓
Gold (USD)	\$1,803.38	\$1,825.49	↓
FTSE 100	6,875.17	7,157.62	↓
UK 5 Year Gilt Yield	0.301	0.391	↓

Sources: ONS (unless otherwise indicated) (final six indicators retrieved 19 July)

Official House Price data, HM Land Registry, May 2021

Sources: HM Land Registry

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
Oxford	£455,537	2.2%	16.1%
Somerset	£267,439	1.7%	13.7%
Leeds	£210,358	0.3%	13.6%
Cornwall	£265,288	-1.5%	12.8%
Devon	£293,278	0.8%	12.4%
South Oxfordshire	£463,698	1.1%	11.3%
Harrogate	£308,596	3.7%	11.3%
West Oxfordshire	£373,452	6.9%	10.8%
Winchester	£458,691	4.8%	10.7%
West Berkshire	£372,169	3.2%	9.7%
Cambridge	£470,710	-1.0%	8.9%
South Cambridgeshire	£398,007	-1.0%	8.9%
Cambridgeshire	£315,094	0.0%	8.4%
York	£280,348	-0.4%	7.8%
Northampton	£229,671	1.4%	7.6%
Suffolk	£261,932	-1.4%	7.3%
Wiltshire	£292,556	-1.1%	7.0%
Northamptonshire	£247,865	1.0%	7.0%
Vale of White Horse	£375,192	1.9%	6.8%
Bath and North East Somerset	£368,151	-2.3%	6.6%
Dorset	£307,071	-2.0%	5.6%

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
North West	£189,245	1.4%	15.2%
Wales	£184,297	0.8%	13.3%
North East	£143,129	1.4%	11.8%
East Midlands	£216,077	-0.2%	11.0%
Yorkshire and The Humber	£181,856	0.8%	10.2%
United Kingdom	£254,624	0.9%	10.0%
West Midlands region	£219,793	0.8%	9.8%
England	£271,434	0.4%	9.7%
South East	£350,016	1.4%	9.1%
South West	£277,603	-0.6%	8.4%
East of England	£310,200	-1.0%	6.9%
London	£497,948	-0.7%	5.2%

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£497,948	-0.7%	5.2%
Prime Central London	£1,091,867	0.0%	-4.7%
South West London	£710,044	3.5%	13.3%

Official House Price data, HM Land Registry, May 2021

Sources: HM Land Registry

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Hammersmith and Fulham	£780,944	4.7%	14.9%
Bromley	£485,947	4.1%	14.1%
Hounslow	£442,023	1.3%	10.6%
Waltham Forest	£487,133	1.0%	9.0%
Bexley	£368,555	0.8%	8.6%
Enfield	£424,339	0.0%	8.1%
Ealing	£508,907	0.1%	7.6%
Redbridge	£448,582	-0.3%	7.1%
Lambeth	£542,973	1.9%	6.9%
Hillingdon	£432,718	0.0%	6.3%
Barking and Dagenham	£308,760	-0.3%	6.3%
Havering	£388,851	0.4%	6.0%
Sutton	£394,981	-0.9%	5.8%
Harrow	£475,121	-2.9%	5.5%
London	£497,948	-0.7%	5.2%
Brent	£508,571	2.1%	5.1%
Richmond upon Thames	£723,775	2.5%	5.0%
Lewisham	£438,510	-2.4%	4.8%
Kingston upon Thames	£507,702	0.2%	4.6%
Merton	£541,504	-1.2%	4.6%
Newham	£389,309	1.2%	4.0%
Haringey	£563,687	1.3%	4.0%
Croydon	£385,311	-1.5%	3.7%
Barnet	£546,082	0.1%	3.4%
Wandsworth	£625,412	3.1%	3.0%
Islington	£648,263	-2.6%	2.6%
Tower Hamlets	£474,144	-2.6%	2.5%
Southwark	£528,767	0.9%	1.8%
City of Westminster	£974,523	-2.9%	1.4%
Greenwich	£400,216	-0.8%	0.9%
Camden	£835,265	1.9%	-3.3%
Hackney	£553,032	-4.4%	-4.4%
Kensington And Chelsea	£1,209,210	2.4%	-10.8%
City of London	£765,822	7.4%	-16.6%
Outer London	£453,877	0.4%	6.6%
Inner London	£594,624	0.2%	2.5%

HomeLet Rental Index, June 2021

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
South West	£948	0.5%	10.5%
Wales	£702	0.6%	10.4%
East Of England	£1,005	0.4%	9.6%
East Midlands	£704	0.0%	8.1%
South East	£1,105	0.9%	8.1%
UK (excluding London)	£861	0.8%	8.0%
Scotland	£738	4.4%	6.6%
Yorkshire and the Humber	£701	0.6%	6.5%
Northern Ireland	£699	3.1%	6.1%
UK	£1,007	1.0%	5.9%
West Midlands	£754	-0.1%	5.6%
North West	£799	1.1%	5.4%
North East	£547	-2.3%	4.2%
Greater London	£1,607	1.5%	1.5%

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.

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