Carter Jonas

RESIDENTIAL BRIEFING NOTE

March 2021

Market Overview

The Chancellor, in his Budget earlier this month, continued to support businesses and employees adversely impacted by lockdown and the wider COVID restrictions. There were generous giveaways and extensions of current schemes including hospitality tax breaks, the Coronavirus Job Retention Scheme (furlough), the extension of the stamp duty holiday and the new government-backed mortgage guarantee scheme, all aimed at supporting the economy for at least a few more months. The hope is that the vaccine rollout and planned removal of most restrictions between now and June will continue to bolster the economy during these months, by which point when the giveaways and various support measures have ended, we will have 'flattened' a potential unemployment peak.

The housing market at the start of 2021 was showing signs of cooling down following high levels of transaction activity and price growth during 2020. But remember that most of this data would have been collected prior to the Government's Budget announcement on 3 March. Since then, our Carter Jonas offices have seen a clear pattern of rising buyer enquiries, while the timelier Rightmove house price index also notes a surge in website visits, and we expect a rise in demand will be reflected in many of next month's data releases.

Executive Summary

- *January's GDP output declined by 2.9% as the third lockdown stifled many sectors of the economy. The hospitality, retail, education, and manufacturing sectors all saw output fall as people stayed home, home-schooled, and significantly reduced spending.*
- *There were upticks in all three Purchasing Managers Indices during February, as Brexit and pandemic implications began to ease. Business optimism also rose, particularly in the manufacturing sector, as economic sentiment across the country turns positive.*
- *Labour market data was again fairly robust, considering the country is still in lockdown. Payrolled employee numbers grew again in February and the unemployment rate actually declined in the three months to January, to 5.0%.*
- *Wage growth increased for the sixth month in a row, up 4.2% annually. Although a lot of this will be because lower paid jobs have been lost, excluding those factors, wages still probably grew by around 3% annually.*
- *Some conflicting house price data this month with Nationwide reporting monthly gains during February of 0.7% while Halifax reports a fall of 0.1% over the same period. The slightly older ONS official house price data for January also indicates a monthly fall of 0.5%.*
- *RICS' residential survey results suggested that stock levels have fallen while new buyer enquiries remained robust in the four weeks ahead of publication in early March. Again, the data was collected ahead of the Budget announcement, so sentiment is likely to turn more upbeat next month.*
- *Rightmove reports demand is soaring as the website finds record-level enquiries on individual properties, while visits to the website are up 40% over February 2020.*

UK economic backdrop

- **GDP is estimated to have fallen by 2.9% month-on-month during January 2021**, down from December's 1.2% growth. This third lockdown has clearly been damaging to economic output. January was the peak of lockdown, prior to any of the positive vaccine sentiment and the prospect of restrictions being lifted, as this optimism did not take hold until mid to late February. School closures meant that **output in the education sector fell**, contracting by over 16% on the month, while indirectly impacting other sectors by preventing some parents from working. The **hospitality industry declined sharply**, falling by over 28% in January and even wholesale and **retail sector output fell by nearly 10%** as households reined-in spending. Lastly, output in the **manufacturing industry also fell** for the first time since the initial lockdown last April, down by 2.3%.

- There was **only a partial recovery in retail sales volumes during February with an increase of 2.1% following last month's fall of 8.2%**. Sales were still down 3.7% on an annual basis, but this was before the impact of the pandemic. Food store sales rose by 2.9% m/m, while sales across non-food stores increased by 4.1% while sales of household goods rose sharply at 16.1% month on month. Household goods sales has been the bright spot during the pandemic as people looked to redecorate and refurbish while stuck at home. With non-essential stores reopening in mid-April retail sales should recover well and this will in turn help the economy start to bounce back.

- **By February consumer confidence had begun to rise**, along with the rates of vaccination and the light at the end of the lockdown tunnel grew closer. According to GfK's long running consumer confidence series, **the overall score improved five points in the month to -23**, with the 'General Economic Situation / next 12 months' sub-index improving by a whopping 14 points. The 'Personal Financial Situation / next 12 months' also continued to rise, growing two points to +4. The 'Savings Index' also continued to grow, showing a figure of +19, up one point this month and suggesting that many people continue to save with so little to spend their money on over the last 6-12 months.

- Export order growth continues to be held back in the manufacturing industry as ongoing complications from COVID-19 and Brexit shipping difficulties stifle growth from some countries. Nevertheless, the **IHS Markit / CIPS Manufacturing sector Purchase Managers Index (PMI) rose in February to 55.1 from 54.1 in January** as new orders expanded slightly and **business optimism rose to a six-year high**. Positive sentiment surrounding the vaccine rollout and recovery from the pandemic across the globe seems to have buoyed optimism.

- **February's construction sector PMI rose unexpectedly to 53.3** from 49.2 in January, showing a solid increase on overall output and project starts. There was a slowdown in housing starts but this appears to have been offset by a sharp rise in commercial work and a slower fall in civil engineering projects. **New orders have increased for the ninth month in a row** as demand rises, including from the residential sector. **Job creation in the sector also rose at the fastest rate in almost two years.**

- **The services industry, having taken the brunt of the impact of this third lockdown, showed contraction again in February although at 49.5 this is well above January's eight-month low of 39.5**. New orders decreased only marginally in the month, while there was a sharp decline in new work from overseas. Job losses have slowed to the lowest rate since the pandemic first took hold last March, although this will of course have been helped by the furlough scheme.

- **CPI inflation was recorded at 0.4% in February**, down from 0.7% the month before. The fall was **mostly due to falling prices for clothing and footwear, yet again, coupled with a decline in recreation and culture** – both will be mostly due to lockdown and will likely fade away in April and May. These downward price pressures on inflation could have been larger were it not for rising fuel costs during the month, accounting for a 2.9% month on month increase.

- Labour market data over the last three months continues to show just how well the furlough scheme is protecting jobs as **unemployment to January 2021 actually fell by 0.1 percentage points, to 5.0%**, according to the latest Labour Force Survey. Employment data meanwhile remained steady at 75.0% (no change). Examining the latest PAYE employment data shows that **employment rose for the third month in a row in February**, up by nearly 68,000.

- The earnings growth data also indicates a strong market, with **weekly earnings indicating an annual increase of around 4.2%, up from 4.1%** in the previous data release. On the face of it, the data seems to suggest that wages are growing strongly and have been now since August last year. However, it is more likely that wages appear to be growing so rapidly because lower paid workers have lost their jobs and actual wage growth is probably something more like 3%.

- The **Monetary Policy Committee voted unanimously to keep Bank Rate at 0.10%** during its latest meeting. The Committee seems to be more upbeat about GDP growth as they noted that the path to recovery seems to be going faster than was anticipated in their February report and the Bank of England now **expects GDP to recover to its pre-Covid peak by the final quarter of 2021**.

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

Residential property market

Sales Prices and Rents

- **Nationwide reported a slightly surprising month on month growth in house prices of 0.7%** in February, up from a fall of 0.2% in January. On an **annual basis the Bank found that prices have risen by 6.9%, again a rise over the previous month** which saw a 6.4% increase. The data used for the reporting period would have been before the official announcement from the government that the stamp duty holiday is being extended a further three months so the Bank posits it may have been that the nearing end (previously March 31st) caused a small surge in activity and a boost in demand.

- On the other hand, **Halifax reported a small monthly decline in house prices during February of -0.1% and annual rise of 5.2%** which is a small decrease from January where 5.4% growth was recorded. Once again, this data would have been collected before the stamp duty holiday extension was announced. Even with the extension there is still only four months left in which to take advantage of the tax break and so the next few months will really begin to show what sort of steam is left in the market and whether demand surges again. Those who were keen to make a move and benefit from the tax break would have probably already completed their transaction so **it remains to be seen whether this extension of three months will draw another cohort of buyers or simply allow those already 'in the system' to complete the purchase within the extended timeframe.**

- **ONS's official house price index also showed a slowing pace of house price growth** in January, 7.5% annual growth was recorded, down from (a revised) 8.0% the month before and reflects a monthly fall of 0.5%.

- On a regional basis the North West recorded the strongest pace of growth in January, with prices up by an average of 12% over the same period last year. This was followed by Wales (9.6%), Yorkshire and the Humber (8.9%) and the North East (8.5%). However, most areas showed some rather robust growth with the West Midlands at the bottom of the table but still showing growth of 4.7%.

- Greater London showed growth of 5.3% with many outer suburbs indicating the highest levels of house price rises, including Brent at over 21%, while both Merton and Redbridge recorded growth of 10%. The outer London boroughs together have averaged 6.6% house price inflation compared with inner London at 3.7%.

- Turning to our regional Carter Jonas office locations and once again it is clear that demand for more rural, countryside locations is strong with Cornwall reporting sharp annual rises of 13% followed by Winchester at 11.3%, Leeds (11%), Wiltshire (9.6%) and Somerset (8.4%). On the other hand Cambridge is again reporting slow growth of 1.7%, following last month's (revised) 2.8% annual growth.

- February's RICS Residential Market Survey shows that **+52% of respondents indicated that house prices are currently rising**, an increase over last month's figure of +50% and suggests that house price inflation is maintaining its current momentum. Regionally, all areas of the country reported price growth, **even across London where the net balance rose this month** to +20% of respondents suggesting prices in the capital were on the rise. Furthermore, **the 12-month forecast for price growth rose, climbing to +46%** from +30% the previous month. The Budget announcement of the 95% government-backed mortgage scheme and the extension of the stamp duty holiday might be at play here, with many believing this will continue to put heat into the market.

- **Average residential asking prices are up 2.7%** annually, according to Rightmove's latest house price index report (March 2021). This is down slightly from last month's 3.0%, but more interestingly **the monthly rise is 0.8%, following last month's rise of 0.5%,** a reflection of the current 'sellers' market' whereby demand continues to outstrip supply.

- Falling rents in Greater London continue to put downward pressure on national rental growth according to HomeLet's latest report on the private rented sector. Across the **UK rents appear to have risen by 3.3% annually however when London data is excluded this jumps to 5.9%**. Rent rises were recorded in all regions of the country bar Northern Ireland and Greater London, the latter which posted declines of 4.7% **as demand for rental units in the central parts of London continues to fall** during the time of COVID, lockdown and remote working. On the other hand, rents grew sharply in the East Midlands (8.1%), the South West (7.7%) and across the South East (6.8%) on an annual basis.

- The RICS February report showed that rental growth expectations have risen with a net balance of **+37% of participants suggesting that rents will increase over the next three months**. Over the next 12 months rents are expected to rise by around 2% nationally, however in London contributors have said there will be no change.

Activity

- **Last year saw mortgage approvals rise to their highest annual total in over a decade, and this was despite the market being 'frozen' for eight weeks in the Spring. The start of 2021 has seen approvals fall slightly** with monthly figures down for the second month in a row in January, according to Bank of England data. Despite this, the monthly figure of 99,000 is still more than 50% above the average monthly approvals over the last decade.

- January's property transaction data from HMRC also showed a decline for the first time in eight months. Transactions totalled 120,000 but this was down 4% over December's figure. **By February however, transactions had shot up yet again, reaching over 147,000 this is the highest rate since early 2007** (notwithstanding March 2016). There was clearly a rush to get sales across the line prior to the original stamp duty holiday deadline in March.

- The RICS Residential market survey for February showed what many have been seeing anecdotally, that **stock levels are declining across the country**. There was a net balance of -29% of contributors reporting falling new instructions in the month, following last month's reading of -40%. **New buyer enquiries however have not softened by the same level** with a reading of -9% in February, **suggesting there is a supply and demand imbalance** which our offices have certainly noticed as well.

- The web portal Rightmove notes that the number of **potential buyers enquiring about individual available properties on their site was at a record high** over the last month. Enquiries were 34% above the same period last year which was itself an active period (before lockdown). Following the stamp duty holiday extension and the government's new mortgage guarantee scheme, Rightmove notes that demand is at all-time highs with **daily visits to their site up 40% over the same four weeks one year ago**.

- Again this month the RICS market survey found that in the lettings market tenant demand has increased over the last three months, with a net balance of +26%. At the same time however landlord instructions continue to fall, with a net balance of -28% of contributors suggesting this is the case. This again points to **a huge imbalance happening in the supply and demand of the private rented sector and we expect rents to increase to reflect this.**

HM Treasury Forecasts for the UK Economy, March 2021

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

	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

Select Market Indicators, latest versus previous data

ONS (unless otherwise indicated) (final six indicators retrieved on 23 March)

	Current	Previous	Direction of change
GDP monthly (month-on-month)	-2.9%	1.2%	↓
Retail sales volumes (monthly % change)	+2.1%	-8.2%	↑
GfK Consumer Confidence Index (monthly, Feb ’21)	-23	-28	↑
IHS Markit / CIPS Manufacturing PMI	55.1	54.1	↑
IHS Markit / CIPS Construction PMI	53.3	49.2	↑
IHS Markit / CIPS Services PMI	49.5	39.5	↑
Inflation rate	0.4%	0.7%	↓
Interest rate	0.10%	0.10%	↔
Employment rate (to Jan 2021)	75.0%	75.0%	↔
Unemployment rate (to Jan 2021)	5.0%	5.1%	↓
Weekly earnings growth, regular pay (excl bonuses)	4.2%	4.1%	↑
Nationwide annual house price inflation	6.9%	6.4%	↑
Halifax annual house price inflation	5.2%	5.4%	↓
Official UK House Price inflation (annual)	7.5%	8.0%	↓
Rightmove House Price Index (annual, asking prices)	2.7%	3.0%	↓
HomeLet Rental Index (annual growth, UK)	3.3%	2.9%	↑
£ Sterling: $ USD	$1.39	$1.40	↓
£ Sterling: € Euro	€1.16	€1.16	↔
Brent Crude (USD)	$62.29	$62.56	↓
Gold (USD)	$1,739.41	$1,773.30	↓
FTSE 100	6,697.99	6,618.38	↑
UK 5 Year Gilt Yield	0.342	0.145	↑

Official House Price data, HM Land Registry, January 2021

Sources: HM Land Registry

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
Cornwall	£265,775	1.4%	13.0%
Winchester	£454,139	0.4%	11.3%
Leeds	£210,315	1.7%	11.0%
Wiltshire	£296,112	1.4%	9.6%
Somerset	£257,328	1.3%	8.4%
West Oxfordshire	£348,363	1.7%	8.2%
York	£276,968	1.8%	8.1%
Dorset	£311,895	1.2%	7.7%
South Oxfordshire	£439,703	-2.4%	7.5%
Bath and North East Somerset	£352,732	-4.8%	5.8%
Northamptonshire	£240,899	0.3%	5.7%
Vale of White Horse	£377,362	2.0%	5.7%
Suffolk	£258,956	-0.4%	5.7%
Devon	£275,356	-1.3%	5.6%
Harrogate	£305,685	2.1%	5.0%
Cambridgeshire	£307,069	1.3%	4.9%
South Cambridgeshire	£401,579	4.2%	4.7%
Oxford	£442,448	0.2%	3.3%
West Berkshire	£359,729	-1.3%	3.1%
Northampton	£217,672	-1.8%	2.2%
Cambridge	£437,052	-1.6%	1.7%

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
North West	£184,234	0.7%	12.0%
Wales	£178,907	-1.9%	9.6%
Yorkshire and The Humber	£179,248	-1.4%	8.9%
North East	£138,151	-1.3%	8.5%
East Midlands	£209,927	-1.2%	7.6%
East of England	£310,639	0.7%	7.5%
England	**£266,532**	**-0.6%**	**7.5%**
United Kingdom	**£249,309**	**-0.5%**	**7.5%**
South West	£274,648	-1.8%	6.7%
South East	£342,420	0.1%	6.4%
London	£501,320	0.1%	5.3%
West Midlands region	£210,454	-2.3%	4.7%

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£501,320	0.1%	5.3%
Prime Central London	£1,135,124	0.3%	-0.1%
South West London	£689,151	1.3%	5.1%

Official House Price data, HM Land Registry, January 2021

Sources: HM Land Registry

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Brent	£519,355	4.2%	21.2%
Haringey	£622,104	6.1%	12.5%
Merton	£551,175	-1.8%	10.3%
Redbridge	£461,767	3.4%	10.0%
Lewisham	£450,161	2.1%	9.9%
Richmond upon Thames	£723,399	2.6%	9.8%
Hackney	£599,090	1.0%	7.8%
Waltham Forest	£478,186	0.7%	7.7%
Havering	£387,744	2.5%	7.4%
Ealing	£501,151	-1.1%	7.2%
Bromley	£465,318	0.6%	7.2%
Enfield	£417,343	1.3%	7.1%
Islington	£712,428	6.8%	7.0%
Bexley	£359,197	1.2%	6.7%
Southwark	£535,468	-0.7%	6.6%
Harrow	£475,996	0.1%	6.4%
London	£501,320	0.1%	5.3%
Kensington And Chelsea	£1,313,590	-2.6%	5.0%
Croydon	£390,093	1.2%	4.7%
Camden	£864,668	5.5%	4.5%
Barnet	£544,918	1.9%	4.5%
Hounslow	£429,745	1.8%	4.4%
Hillingdon	£423,124	-1.7%	4.4%
Barking and Dagenham	£316,257	1.3%	4.3%
Sutton	£385,231	-2.6%	3.7%
Lambeth	£542,446	0.8%	3.7%
Greenwich	£411,066	0.3%	3.4%
Newham	£378,023	-1.6%	3.4%
Hammersmith and Fulham	£745,509	3.8%	3.1%
Kingston upon Thames	£498,102	-1.9%	1.7%
City of London	£781,788	-4.3%	1.0%
Tower Hamlets	£457,731	-2.8%	-1.0%
Wandsworth	£598,547	-3.1%	-1.1%
City of Westminster	£956,658	4.5%	-5.1%
Outer London	**£450,618**	**0.7%**	**6.6%**
Inner London	**£600,310**	**0.7%**	**3.7%**

HomeLet Rental Index, February 2021

Source: HomeLet Rental Index

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
East Midlands	£704	0.9%	8.1%
South West	£914	-0.5%	7.7%
South East	£1,087	-0.6%	6.8%
East of England	£978	-0.1%	6.8%
UK	**£984**	**0.3%**	**3.3%**
West Midlands	£749	1.1%	5.8%
Yorkshire & Humberside	£680	0.0%	5.4%
North East	£542	0.4%	4.8%
North West	£782	0.9%	3.6%
Wales	£673	-0.3%	3.5%
UK (excluding London)	**£840**	**0.1%**	**5.9%**
Scotland	£678	-0.7%	0.9%
Northern Ireland	£662	2.2%	-1.0%
Greater London	£1,572	0.6%	-4.7%

ABOUT **CARTER JONAS**

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