

RESIDENTIAL BRIEFING NOTE

OCTOBER 2021

Market Overview

*Queues outside of petrol stations, and the unavailability of some food and other consumable items amid lorry driver shortages and supply disruptions have dominated the economic and political headlines over the last four weeks. This is not all though, as rising inflation and record-breaking job vacancies are adding wage pressures and higher input costs onto many businesses already struggling during the pandemic. Concerns about these issues are reflected in **Deloitte's latest survey of UK Chief Financial Officers**; the report notes that most respondents do not believe that labour shortages and supply disruptions will ease until late 2022 or 2023 with many particularly concerned about labour supply issues.*

All the while the housing market continues to be one of the shining beacons of the economy; activity across both sales and lettings hasn't let up in the way that many expected when the main tranche of the stamp duty tax break ended. The result however is price rises and rental growth across the country, leaving many buyers (particularly first-time buyers) and renters financially overstretched at a time when costs everywhere else also continue to climb. While potential interest rate rises may dampen demand in the sales market it too will add yet another financial burden to those looking to buy a home.

Executive Summary

- Following a downwardly revised July figure of -0.1%, August figures indicate GDP growth of 0.4%. GDP is still 0.8% below pre-pandemic levels though.
- September marked the fifth month in a row of falling retail sales volumes, down 0.2% over August, with household goods stores recording the largest drop.
- Worries over the rising cost of fuel and food as well as stock shortages on supermarket shelves have contributed to declining consumer confidence, with the latest indicator moving to -13 from -8 previously.
- Both manufacturing and construction PMIs slipped in September (over August's figures) with supply chain issues and rising input costs noted as barriers to further growth.
- The services sector PMI on the other hand rose slightly but again the rising costs of fuel, energy and labour are noted as concerning and will inevitably be passed onto consumers.
- Inflation dipped slightly to 3.1% from last month's record-high of 3.2%; this is expected to be a temporary dip however and unlikely to dissuade an interest rate hike in the coming months.
- Another record level of job vacancies (1.2 million) is overshadowing the otherwise healthy labour market as the imbalance between skills available and unfilled jobs widens across many sectors.
- There was no let-up in the strong pace of house price growth in September with Halifax recording 7.4% annually (up from 7.2% in August), Nationwide noting a punchy 10% increase, while asking prices were reportedly up 6.5% in the four weeks to mid-October according to Rightmove.
- The rental market is still showing impact of limited supply across the country, with annual UK rents reported to have grown by between 7.5% (HomeLet) and 8.6% (Rightmove).
- Demand for city centre rental properties appears to have turned a corner with both domestic and international students, as well as city centre office workers returning to the urban market and driving rent rises here as well.

UK economic backdrop

- Following a revised fall in GDP of 0.1% in July, August's growth figure of 0.4% is a welcome boost, even if the pace of growth has been slowing over the last few months. Services output increased by 0.3% during August while Production grew the most at 0.8%. Construction contracted for the second month in a row, down 0.2% over July. All sectors remain below their pre-pandemic GDP levels, collectively 0.8% below February 2020.
- Consumer confidence slipped five points in September, moving to -13 from -8 in August. Concerns about the rising prices of fuel, food, headline inflation and supply shortages across several sectors is causing worry amongst consumers. All five sub-indices were down over the previous month with the 'General Economic Situation' forecast declining the most moving from -6 to -16 in just one month. The report also notes a fall in the 'Major Purchase Index' which is disappointing news for retailers, particularly moving into the holiday period.
- In line with a slipping confidence and consumers becoming reluctant to spend, retail sales declined again in September, down 0.2% over August. In fact, it was household goods stores which marked the largest fall of 9.3% (furniture and lighting stores in particular). Auto fuel sales volumes rose by nearly 3% in September as demand increased when reports of 'fuel shortages' emerged.
- September's UK manufacturing Purchasing Managers Index (PMI) by IHS Markit / CIPS was recorded as 57.1, down from August's 60.3 and is the weakest pace of expansion since February. Despite this, it is still a strong figure, but the fall is in partly due to supply chain issues and rising labour and material costs. Employment growth was the weakest since January however on the whole manufacturers remained positive in their outlook, as Brexit and pandemic issues begin to recede.
- The IHS Markit / CIPS construction PMI also declined in September, down to 52.6, almost 15 points lower than the 24-year high recorded just three months ago, in June. This latest reading indicates a small expansion of the sector as output is at its weakest in over eight months due to supply chain issues and slowing demand. House building growth was at its weakest since June 2020 while civil engineering projects showed the biggest slowdown. Purchase prices increased yet again although the pace of increase has slowed.
- The last PMI indicator from the services sector points to a slight rise over August to 55.4, up from 55.0 and indicating further strong recovery in the UK services sector. Inflationary pressure however is strong as supply constraints are severe and new orders are slowing. Rising fuel, energy and labour costs over the month were passed on to consumers so the level of prices charged rose at the fastest rate since the survey began in 1996. The survey notes business optimism is waning slightly but that most respondents still expect output to rise over the 12-month horizon.
- UK inflation unexpectedly dipped in September, with the 12-month rate now 3.1%, down from August's 3.2%. The largest upward contribution came from rising transport costs. Evidence from most production, manufacturing, and services sectors however points to growing input costs so this small dip is expected to be temporary.
- There is no Monetary Policy Committee meeting in October meaning interest rates remain unchanged at 0.10% this month. However, markets are now pricing in an earlier-than-expected interest rate rise due to current inflationary pressures. The first half of 2022 had looked like the most likely scenario for an increase however now many analysts suspect that a December 2021 rise is increasingly likely.
- The most recent Labour Force estimate for the three months to August shows that the labour market continues to recover from the impacts of the pandemic. Latest data indicates that the employment rate has risen again, to 75.3%, up 0.5 percentage points over the previous quarter. The unemployment rate has also decreased, down 0.4 percentage points to 4.5%.
- The number of payroll employees also continues to rise, increasing by 207,000 in September alone. The overall figure of 29.2 million people registered on payroll is now back to pre-pandemic levels (February 2020).
- Despite the rise in employment, for the second month in a row, job vacancies have risen over 1 million, with the current rate of 1.2 million vacancies now another record high. All industry sectors are indicating high rates of vacancies with accommodation and the food services sector rising the most in September, up by nearly 50,000 over August.
- Latest data shows average earnings growth slowed slightly with an annual figure of 6.0% (regular pay, excluding bonuses), down from last month's 6.8%. As we have said now on several occasions, these figures are being impacted by both base and compositional effects due to the pandemic and lockdown restrictions.

The ONS's methodology to include these effects therefore indicates that taking these into account reduces regular pay growth this month to somewhere between 4.1% and 5.6%.

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

Residential property market

Sales Prices and Rents

- House price growth remained in double digit territory during September, according to Nationwide's latest index. At 10.0% annual UK growth this has eased from the previous month's 11.0%. However, on a monthly basis the bank finds that prices have not changed much, increasing by just 0.1% over August. This month the bank released its regional data where it shows Wales with the highest growth of 15.3% recorded (annual change this quarter) followed by Yorkshire & the Humber at 12.3% and the North West (11.4%). All areas of the south are found at the bottom of the table although even here house price growth would still be considered strong: London (4.2%), Outer Met (6.8%), East of England (8.9%).
- Halifax indicates that UK house prices rose by 7.4% annually, up from 7.2% last month. Unlike Nationwide data however, Halifax notes monthly growth is still very strong at 1.7%, equating to an additional £4,000 to the price of an average property in just one month.
- According to latest ONS / HM Land Registry data UK house prices grew by an average of 10.6% in the 12 months to August (latest data). This is up significantly on the previous month when 8.0% (revised) annual growth was recorded and is only the second time (following June's 12.8% growth) that house price inflation has reached double digits, since 2007.
- Regions to the north of the country have recorded the strongest price growth, with the North East at the top of the table posting 13.3%, followed by Wales (12.5%), the North West (12.4%) and the West Midlands (11%). As has been the trajectory for the last 12 months, both London and the South East are at the bottom of the price growth table at 7.5% and 8.7% respectively, however these are still very strong house price inflation figures.
- Of our Carter Jonas locations North Northamptonshire has seen the strongest growth of 13.6%, however average prices here are £244,496, nearly 13% below the England average meaning this area is still very affordable in comparison. Somerset, Cornwall, Cambridge, and York round out the top five areas with the strongest house price growth. At the bottom of the table is Oxford at 1% annual growth but here, average prices are more than 50% above the national average.
- In London, suburban locations are overall producing higher rates of price growth with outer London posting an average growth of 7.0% compared with 2.6% across the inner London boroughs. However, at the top of the price growth table are three inner London boroughs including Tower Hamlets where an incredible 20.5% price growth has been recorded in the 12 months to August 2021.
- Latest indicators from the RICS residential market survey found that house price expectations are slowing at +21% compared with +23% last month. Over the longer term however the number of respondents indicating price growth rose slightly to +70% compared with +68% in August. The shortage of available supply is behind the sustainment in price growth in the near term.
- Annual growth in asking prices reached 6.5% in the four weeks to mid-October according to Rightmove's latest House Price Index, a robust increase from last month's 5.8%. On a monthly basis the web portal notes that average prices rose 1.8% month on month, the highest monthly figure for this time of year since October 2015. Mirroring Nationwide's index, Rightmove found that asking prices rose the most (year on year) in Wales, at 11.3%, compared with London where prices rose by just 2.6%.
- Rents across the UK continue to climb, rising by a punchy 7.5% annually, and reflecting a 0.8% monthly increase, according to HomeLet's latest report. Wales recorded the strongest annual rental growth of 12.9% followed by Scotland at 10.5%. Across England the East Midlands has shown the highest growth rate of 8.4% while London rents appear to be gaining some momentum with an annual rise this month of 6.4%, up from 3.6% last month and a big change from declining rents that were posted throughout all of 2020 and the first half of 2021.
- Rightmove's latest Rental Tracker notes that strong and rising demand for properties has led to rents outside of London rising at their fastest annual rate ever recorded, at 8.6%. Demand for London properties has also started to recover with rents here increasing for the first time since the pandemic, up 2.7% according to the web portal.

- As with other indicators, the RICS market survey notes that the supply and demand gap in the rental market continues to place upward pressure on rents with near term rental expectations showing a net balance of +55%. Growth is indicated in all regions and countries of the UK, including London where rents are now expected to rise by 2% over the coming 12 months.

Activity

- Mortgage approvals declined slightly in August, although not by much. Official Bank of England data indicates there were just under 74,500 approvals in the month, down less than 1% over July's figure. All indications are that demand in the housing market continues to remain strong even after the end of the main part of the Stamp Duty tax holiday.
- The final end to the stamp duty tax break boosted transactions again this September, rising by almost 70% over August. Provisional data from HMRC recorded 160,950 residential transactions during the month, up from 96,000 the previous month. Year to date transactions now total 1.2 million, 50% more than the ten-year average for this time of year.
- Following two months of falling new buyer enquiries, the latest RICS residential market survey reports a net balance of zero during September, indicating that buyer demand is steadily rising again, after the end of stamp duty holiday showed a notable fall in demand. Near term sales expectations also improved slightly moving from +6% in August to +11% in the latest survey which the report notes are 'consistent with a small acceleration in momentum through the rest of 2021'. On the other hand, though, supply is still tight with the market indicating another decline in new listings; new instructions have been in negative territory now for the last six months while new appraisals have fallen to -26% from -10% in August.
- Rightmove's latest House Price report finds that the number of agreed sales was up 15.2% in September compared with the same month in 2019. Encouragingly, they note that the number of new properties on the market increased compared with the summer months, but it is still not enough to narrow the supply / demand gap and ease the upward pressure on prices just yet.
- Rightmove's latest quarterly Rental Market Report (Q3 2021) shows that tenants are heading back to city centres at a quickening pace now that COVID-related restrictions have eased. The report finds that tenant demand is now up 39% compared with the same period in 2019, and 11% more than one year ago. The rise in demand compared with the same time last year has been particularly notable in some large city centres; Edinburgh demand is up 49%, Manchester (+36%), Birmingham (+38%), Leeds (+34%).
- On the supply side Rightmove's latest rental report also notes that suburban and rural rental properties are suffering from a lack of availability with suburban properties now making up just 33% of all available rental stock compared with 46% pre-pandemic. Urban properties on the other hand make up 64% of total availability compared with 48% pre-pandemic.

HM Treasury Forecasts for the UK Economy, October 2021

	2021	2022	2023	2024	2025
Official Bank Rate (%)	0.10	0.36	0.83	1.17	1.29
House Price Growth (annual, %)	4.7	1.0	1.6	1.9	2.2
CPI inflation rate (annual average, %)	3.5	2.7	2.2	2.1	2.0
Unemployment rate (%)	5.0	4.6	4.5	4.3	4.2
GDP (annual, %)	7.0	5.0	2.1	1.8	1.7
Average earnings growth (annual, %)	5.0	3.4	2.6	3.0	3.1

Sources: HM Treasury Consensus Forecasts (2021, 2022: Oct 2021, all others: August 2021)

Select Market Indicators, latest versus previous data

	Current	Previous	Direction of change
GDP monthly (month-on-month)	0.4%	-0.1%	↑
GfK Consumer Confidence Index	-13	-8	↓
Retail sales volume (monthly % change)	-0.2%	-0.6%	↑
IHS Markit / CIPS Manufacturing PMI	57.1	60.3	↓
IHS Markit / CIPS Construction PMI	52.6	55.2	↓
IHS Markit / CIPS Services PMI	55.4	55.0	↑
Inflation rate (CPI)	3.1%	3.2%	↓
Interest rate	0.10%	0.10%	↔
Employment rate	75.3%	75.2%	↑
Unemployment rate	4.5%	4.6%	↓
Weekly earnings growth, regular pay (excl bonuses)*	6.0%	6.8%	↓
Nationwide annual house price inflation	10.0%	11.0%	↓
Halifax annual house price inflation	7.4%	7.2%	↑
Official UK House Price inflation (annual)	10.6%	8.5%	↑
Rightmove HPI (annual asking prices)	6.5%	5.8%	↑
HomeLet Rental Index (annual growth, UK)	7.5%	6.9%	↑
£ Sterling: \$ USD	\$1.38	\$1.37	↑
£ Sterling: € Euro	€1.18	€1.17	↑
Brent Crude (USD)	\$84.30	\$74.11	↑
Gold (USD)	\$1,778.89	\$1,756.70	↑
FTSE 100	7,210.56	6,852.98	↑
UK 5 YEAR GILT YIELD	0.8335	0.4805	↑

Sources: ONS (unless otherwise indicated) (final six indicators retrieved 20 September)

* CORRECTION: September 2021's briefing contained an error whereby the figure for total pay was used rather than regular pay. This has now been amended.

Official House Price data, HM Land Registry, August 2021

Sources: HM Land Registry

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
North Northamptonshire	£244,496	2.9%	13.6%
Somerset	£270,093	2.0%	12.7%
Cornwall	£270,458	0.4%	12.4%
Cambridge	£493,297	6.6%	11.7%
York	£284,750	-0.9%	11.3%
Leeds	£216,580	0.6%	10.6%
Suffolk	£272,839	1.2%	10.4%
Vale of White Horse	£390,939	0.1%	10.3%
Wiltshire	£303,916	2.2%	9.9%
West Northamptonshire	£269,154	0.2%	9.9%
Devon	£290,214	0.3%	9.5%
Dorset	£314,931	1.6%	9.3%
South Oxfordshire	£479,651	2.7%	9.1%
Cambridgeshire	£320,693	1.9%	8.4%
Bath and North East Somerset	£383,537	2.7%	8.3%
Winchester	£453,746	-2.1%	7.4%
Harrogate	£305,685	-2.0%	7.0%
West Berkshire	£363,887	2.4%	6.7%
West Oxfordshire	£365,626	5.7%	6.4%
South Cambridgeshire	£396,531	1.0%	4.5%
Oxford	£428,298	-4.2%	1.0%

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
North East	£149,042	2.4%	13.3%
Wales	£194,575	2.8%	12.5%
North West	£194,821	4.5%	12.4%
West Midlands region	£228,593	2.9%	11.0%
United Kingdom	£264,244	2.9%	10.6%
East Midlands	£221,693	2.7%	10.3%
England	£280,921	3.2%	9.8%
East of England	£324,510	2.9%	9.6%
South West	£288,658	4.2%	8.9%
Yorkshire and The Humber	£185,968	1.5%	8.8%
South East	£358,070	1.9%	8.7%
London	£525,893	5.6%	7.5%

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£525,893	5.6%	7.5%
Prime Central London	£1,225,471	6.9%	5.9%
South West London	£747,088	4.7%	8.1%

Official House Price data, HM Land Registry, August 2021

Sources: HM Land Registry

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Tower Hamlets	£555,876	5.0%	20.5%
Hammersmith and Fulham	£881,616	6.3%	15.0%
Camden	£949,175	9.1%	13.6%
Hounslow	£461,281	8.7%	12.2%
Enfield	£445,555	3.3%	11.7%
Hackney	£650,941	5.8%	10.5%
Waltham Forest	£495,405	1.7%	10.2%
Barking and Dagenham	£334,219	1.9%	9.9%
Merton	£579,958	4.9%	9.7%
Kensington And Chelsea	£1,450,425	4.7%	9.4%
Redbridge	£457,883	1.5%	9.3%
Hillingdon	£447,558	4.5%	9.0%
Greenwich	£420,070	4.9%	7.7%
Haringey	£609,713	8.3%	7.7%
London	£525,893	5.6%	7.5%
Havering	£400,178	1.4%	7.1%
Bromley	£464,889	-0.3%	7.1%
Bexley	£372,338	1.6%	7.0%
Ealing	£516,709	1.3%	6.5%
Sutton	£401,756	-0.1%	6.5%
Southwark	£538,855	2.5%	6.5%
Kingston upon Thames	£530,476	1.4%	6.1%
Barnet	£552,793	3.1%	4.9%
Richmond upon Thames	£721,808	2.0%	4.7%
Wandsworth	£637,841	5.7%	4.6%
Croydon	£390,599	0.4%	4.3%
Islington	£705,047	2.0%	4.0%
Brent	£516,260	-1.1%	3.7%
Lewisham	£430,904	3.9%	2.6%
City of Westminster	£1,000,516	10.3%	2.5%
Newham	£379,668	2.4%	1.6%
Harrow	£455,619	-3.5%	-0.2%
Lambeth	£490,790	-2.7%	-9.3%
Outer London	£461,955	1.8%	7.0%
Inner London	£605,491	2.9%	2.6%

HomeLet Rental Index, September 2021

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
Wales	£734	1.5%	12.9%
Scotland	£755	-0.4%	10.5%
East Midlands	£735	-0.9%	8.4%
North West	£830	1.2%	7.8%
Yorkshire & Humberside	£725	0.1%	7.7%
South West	£971	-3.5%	7.6%
UK (excluding London)	£891	-0.1%	7.6%
UK	£1,061	0.8%	7.5%
Northern Ireland	£705	0.1%	7.3%
West Midlands	£797	0.9%	6.7%
Greater London	£1,752	2.3%	6.4%
South East	£1,139	0.6%	6.1%
East Of England	£1,021	0.0%	5.6%
North East	£578	1.0%	3.6%

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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