Carter Jonas

RESIDENTIAL BRIEFING NOTE

SEPTEMBER 2021

Market Overview

Following this Briefing's one month hiatus this September report shows many of the same trends and trajectories as two months prior. Inflation continues to be a concern with no industry unaffected by rising prices. Employee shortages and growing vacancies is the main unease across the labour market; demand for labour in the technical, maths and data industries is wildly out of sync with the number of people professionally skilled in these sectors while vacancies in the transportation sector stem from a Brexit-related problem of too few European drivers willing to go through additional bureaucracy and getting people qualified and tested in a reasonable timeframe. All this has led to employees appearing to have the upper hand as earnings growth rose yet again; even eliminating the base and compositional effects surrounding wage growth it is still very strong. .

In the housing market the supply and demand gap is still not shrinking in either the sales or lettings market. Price growth and rent rises are the result of buyers' and renters' desperation and a vendor and landlord advantage. This situation comes amid what is normally a quiet time during summer months so the hope is that autumn will bring more vendors and a better-balanced sales market.

Executive Summary

- *GDP growth was largely flat in July, rising just 0.1% over June. Although overall production output increased there was contraction in the construction sector while services industry output remained unchanged.*
- *For the fourth consecutive month retail sales volumes declined in August, down 1.2% with food store sales falling the most as consumers returned to pubs, bars, and restaurants.*
- *No change was recorded in August's manufacturing PMI, but both the construction and services industries recorded declines. Nevertheless, none are showing contraction and these 'falls' follow very large output increases following restrictions easing earlier in the year.*
- *All three PMIs however did note some very robust input cost inflation as the cost of transport and overall purchase prices continues to rise.*
- *CPI inflation rose to its highest level since records began, reaching 3.2% in August. While the ONS notes that this is from a low base one year ago, there is little doubt that rising transport and housing costs are contributing factors.*
- *Annual earnings growth reached 8.3% but again this month base and compositional effects skew the data; regular earnings growth is more likely around 3.6%-5.1%.*
- *Job vacancies reached their highest ever levels, now over 1 million. Employment shortages have translated into a 4.6% unemployment figure and these deficiencies are no doubt adding to earnings growth.*
- *A little surprisingly both Nationwide and Rightmove (asking prices) showed an annual increase in house price growth this month at 11% and 5.8% respectively. Halifax's figure of 7.1% is also robust. The lack of stock coupled with continued robust demand is driving price growth as the buyer to vendor ratio remains high.*
- *The private rented market continues to see tenant demand accelerating while landlord instructions (RICS survey) fall. Rising rents are the result and this is noted in every region of the UK according to HomeLet's latest data.*

UK economic backdrop

- Monthly GDP growth was subdued in July with a figure of just 0.1% over June and therefore it remains 2.1% below pre-pandemic levels. The main contribution to the rise in GDP was an increase in production output of 1.2%, while downward pressure was felt by a contraction in the construction sector where output fell by 1.6% on the month. The services sector output remained largely flat compared with June.

- As people began visiting pubs, restaurants, and bars more often in August this led to food store sales falling by 1.2% in the month, the largest downward contribution to the falling retail sales during August (-0.9% month on month). Department store sales also declined by 3.7% (leading to non-food store sales declines of 1.0%). Meanwhile higher reported road traffic during August appears to have led to auto fuel sales rising by 1.5%. Retail sales volumes have now declined in each of the last four months after reaching a peak in April 2021.

- GfK's consumer confidence index decreased slightly during August, to -8, down from -7 in July. This reflects a largely stable measure though, with very little movement in any of the sub-indices. The 'Personal Financial Situation' measure looking ahead still scores the strongest at +11, and this was unchanged from the previous month. The report notes that the Savings Index increased five points, while the Major Purchase Index decreased by the same figure, suggesting that consumers are switching back to saving rather than purchasing for the time being.

- The August UK manufacturing Purchasing Managers Index (PMI) recorded virtually no change over July's figure at 60.3. Although this is indicating the slowest rate of expansion since March, it is still a robust figure, and this is despite reports of shortages of inputs and delivery delays. New business and export orders rose at strong rates while employment also grew for the eighth month in a row. Purchase prices also rose, at the fourth-quickest rate in the survey's history, and this led to selling prices rising at one of their fastest ever rates.

- The IHS Markit / CIPS UK construction PMI dropped to 55.2 in August, down from 58.7 the previous month and is the softest rate of expansion since February. Restrictions in the supply chain of materials as well as transportation seem to be constraining further growth. New work orders rose at their slowest rate since March and new jobs growth also began to slow to a four-month low. Input cost inflation has accelerated to the second highest rate in the survey's history. Nevertheless, construction companies are still very upbeat about 12-month growth prospects.

- Finally, the Services sector PMI for August also fell from July to a reading of 55.0, the lowest month for business activity growth since March, as new business growth clearly lost momentum as the end of the stamp duty holiday cooled demand for residential property transactions. Unlike the other PMIs, job creation in the services industries reached its highest rate since the survey began in 1996. Although cost inflation eased from the previous month it was still the second-fastest rate seen over the past 25 years.

- UK inflation rose to 3.2% in August, up from 2.0% in July and marks the largest increase since records began in 1997. The largest upward contribution on the month came from a rise in restaurants, hotels, recreation and culture and food costs. However, the ONS is quick to point out that this is in comparison with August 2020 when there were discounted food and restaurant costs during the Eat Out to Help Out campaign. As a result, this base effect is skewing the current figure. There were further upward contributions however from transport and rising housing and household services costs.

- A quarterly increase in the rate of employment of 0.5 percentage points has led to an overall rate of 75.2% in the three months to July, according to the latest Labour Market data and survey. The unemployment rate has also declined as a result, to 4.6%. Meanwhile, the number of payrolled employees increased again during August, meaning the total number is now at pre-pandemic levels across the UK. All of this points to a rapidly recovering labour market; and with the number of job vacancies rising to over 1 million for the first time since records began, this too points to a very strong and recovering labour market albeit one that may soon run into employment shortages, which is already the case in some select industries (i.e.: accommodation, food services and transport).

- Average weekly earnings continue to accelerate, rising to 8.3% annually, in the three months to July, up from 7.4% last month. Once again these figures need to be taken with caution and we reiterate what we have written before on the matter: 'these figures are slightly misleading as they are now compared with a low period 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).' The ONS now estimates that stripping these two effects out probably leads to an underlying regular earnings growth more likely to be between 3.6% and 5.1%.

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

Residential property market

Sales Prices and Rents

- Nationwide reports double-digit annual house price growth for the fourth month in a row during August to 11.0%, up from July's figure of 10.5%. This also reflects a very strong monthly growth figure of 2.1%, the second-highest monthly rate in 15 years. This level of inflation is especially surprising as many had thought the pace of price growth would begin to fall in line with the end of the stamp duty holiday at the end of June. The Bank's report notes that a lack of supply may be driving current levels of growth, together with some strong demand for properties in the £125,000 - £250,000 range as they can still benefit from the stamp duty relief until the end of September.

- Latest data from Halifax finds that annual house price growth reached 7.1% during August, down slightly from last month's 7.6% and reflects a monthly change of 0.7%. This latest set of annual growth is a five-month 'low' after reaching a peak of 9.6% in May 2021. In their report, Halifax believes that the heat from the stamp duty tax holiday has now left the market but that other structural issues (increased prevalence to work from home and a lack of supply) are keeping demand high and prices rising.

- UK House prices rose by 8% during July (annually), down from June's 20-year high of 13.1% according to the latest UK Official House Price Index from the ONS. On a monthly basis, prices unsurprisingly fell by 3.7% again down from June's (some-would-say-ludicrously) strong 4.8% monthly growth which itself was the strongest monthly rise since 1978. The average UK house price is now £255,535, nearly £20,000 more than just one year ago.

- On a regional and country level Wales saw the highest annual price growth in July of 11.6%, followed by the North East at 10.8% and the South East posting 8.8%. Yet again though London is at the bottom of the table where a more sustainable level of 2.2% annual price growth was recorded.

- Looking at our Carter Jonas locations there are again some very strong annual growth figures with Oxford topping the table at 15.3% followed by Winchester (15.1%), Devon (13.5%), Cornwall and York (12.0% each) and Leeds at 11.7%. Together, our 21 locations are showing an average annual rise of 9.4%, well above the England average of 7%.

- As has been the trend for well over a year now, house price growth across the London boroughs is marked by the difference in the inner urban versus outer suburban locations. Inner London boroughs are posting growth of just 0.8% in July, compared with 6% growth in the Outer London boroughs. Enfield has posted the highest annual growth this month of 12.7%, followed by Brent (10.2%) and Waltham Forest (10.2%). There were seven locations that have seen negative or no growth over the last 12 months, six of which are Inner boroughs.

- The latest RICS residential market survey (August) notes a net balance of +23% of respondents expect prices to continue to grow over the near term, albeit this is down slightly from +28% last month. The longer 12-month horizon shows even stronger feelings for price growth as +66% of respondents nationally expect house inflation to continue. Over the next five years house price growth is projected to hover around 5% per annum.

- Average asking prices rose by 5.8% on an annual basis, according to Rightmove's latest house price report. This reflects a monthly rise of 0.3% and leads to a new record-high average asking price of £338,462 according to their indices. This strong increase, particularly during the usually slower summer months, comes amid strong competition from buyers in a market where there is very little stock.

- Annual UK rents jumped by an average of 6.9% in August, the highest annual rise in over two years (8.1% excluding London), according to HomeLet's latest report on the private rented market. London rents were also found to have grown (for only the second time in the last 18 months), with an annual rise of 3.6% recorded, translating to a very strong monthly growth of 4.1%. Wales meanwhile posted the strongest growth of 12.8% followed by the South West at 11.9% and the East Midlands at 10.7%.

- Staying with the rental market and the August RICS survey found that +64% of respondents anticipate rents will rise over the short term, the strongest short-term rental growth expectations since this series began in 2013. Over the next 12 months national rental growth expectations rose above 3% for the first time since 2016 with all regions now expecting to see rents rise by more than 2.5% annually. Over the next five years rental growth projections are 4% per annum across the UK.

- The Hometrack / Zoopla quarterly rental market report (published September 2021) notes that a resurgence in demand for city centre locations (driven by university students and an opening up of the economy more generally) has finally led to rising rents in these city centre locations after months of decline or stagnation. Average UK rents outside of London rose by 5% annually, the largest recorded rise since the Index began in 2008.

Activity

- Unsurprisingly mortgage approvals declined again in July 2021 (latest data), down 6.4% over June's figure to reach 75,150 approvals. While this seems like a big decline, particularly following last November and December's peak of over 100,000 approvals in each of those months, it is worth noting that this is still 29% more than the 12-year monthly pre-pandemic average of 58,000 per month.

- Recorded property transactions rose during August, up 32% over July, to reach 98,300, according to HMRC's latest figures. This follows a seemingly short-lived decline in July due to the end of the SDLT tax break. Year to date transactions are now 35% above where they were at the same time in 2019 and almost double the same period last year.

- For the second month in a row the latest RICS residential market survey has found new buyer enquiries have fallen, with the latest balance in negative territory at -14%. Agreed sales were also shown to have dropped, with a net balance of -18% of respondents citing a fall. On the supply side new listings were again reported to have declined, and with a reading of -37% this is now the eighth month of the last nine where this indicator has been negative. This lack of available stock was often referred to by agents as a key factor in sustaining current levels of house price growth (discussed earlier).

- Rightmove's latest report on the housing market corresponds with what all the other metrics are showing that there continues to be very strong demand from buyers in a market where stock is in limited supply. They also report that there are many buyers who have now sold their own property but continue to seek a new one, but this means they have cash in hand and are in much stronger positions than those who have yet to sell. The report goes on to say that the first two weeks of September saw a 14% increase in homes coming up for sale on their site (compared with the last two weeks of August), meaning the autumn market may become 'better-balanced'.

- In the lettings market the RICS August survey of tenant demand has again accelerated with +66% of survey participants noting a pickup during the month. Meanwhile, landlord instructions continue to fall, with this indicator in negative territory now for most of the last 12 months. As with the sales market this gap between supply and demand is what continues to drive rental growth across most of the country.

- The Hometrack / Zoopla quarterly market report notes that there appears to be a resurgence of demand for city centre rental locations as people flood back to cities for university or more generally because the economy is opening back up and offices are reopening. It notes that in the large cities of Liverpool, Cardiff, York, Bristol, and Newcastle time to rent is averaging just under two weeks. The publication goes on to say that demand levels are up nearly 80% compared with the 2017-2019 average, and 19% above the same time last year. On the other hand, stock levels are down by around 13% compared to last year.

HM Treasury Forecasts for the UK Economy, September 2021

	2021	2022	2023	2024	2025
Official Bank Rate (%)	0.12	0.29	0.83	1.17	1.29
House Price Growth (annual, %)	5.9	1.6	1.6	1.9	2.2
CPI inflation rate (annual average, %)	3.4	2.4	2.2	2.1	2.0
Unemployment rate (%)	5.2	4.7	4.5	4.3	4.2
GDP (annual, %)	6.8	5.5	2.1	1.8	1.7
Average earnings growth (annual, %)	4.7	3.6	2.6	3.0	3.1

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

Select Market Indicators, latest versus previous data

	Current	Previous	Direction of change
GDP monthly (month-on-month)	0.1%	1.0%	↓
Retail sales volume (monthly % change)	-0.9%	-2.8%	↑
GfK Consumer Confidence Index	-8	-7	↓
IHS Markit / CIPS Manufacturing PMI	60.3	60.4	↔
IHS Markit / CIPS Construction PMI	55.2	58.7	↓
IHS Markit / CIPS Services PMI	55.0	59.6	↓
Inflation rate (CPI)	3.2%	2.0%	↑
Interest rate	0.10%	0.10%	↔
Employment rate	75.2%	75.1%	↑
Unemployment rate	4.6%	4.7%	↓
Weekly earnings growth, regular pay (excl bonuses)	8.3%	7.4%	↑
Nationwide annual house price inflation	11.0%	10.5%	↑
Halifax annual house price inflation	7.1%	7.6%	↓
Official UK House Price inflation (annual)	8.0%	13.1%	↓
Rightmove HPI (annual asking prices)	5.8%	5.6%	↑
HomeLet Rental Index (annual growth, UK)	6.9%	4.4%	↑
£ Sterling: $ USD	$1.37	$1.38	↓
£ Sterling: € Euro	€1.17	€1.17	↔
Brent Crude (USD)	$74.11	$72.07	↑
Gold (USD)	$1,756.70	$1,791.20	↓
FTSE 100	6,852.98	7,133.35	↓
UK 5 YEAR GILT YIELD	0.4805	0.3030	↑

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

Official House Price data, HM Land Registry, July 2021

Sources: HM Land Registry

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
Oxford	£459,973	2.4%	15.3%
Winchester	£470,583	3.3%	15.1%
Devon	£293,003	0.6%	13.5%
Cornwall	£267,982	-2.0%	12.0%
York	£287,935	0.1%	12.0%
Leeds	£214,925	0.1%	11.7%
Northamptonshire	£256,153	1.6%	11.6%
Somerset	£263,808	0.0%	10.9%
Northampton	£235,990	1.4%	10.7%
Harrogate	£311,961	-0.5%	10.3%
Vale of White Horse	£384,907	2.0%	9.6%
Bath and North East Somerset	£380,787	-0.3%	9.5%
South Oxfordshire	£453,469	-2.8%	8.2%
Wiltshire	£297,804	-1.2%	8.2%
Suffolk	£267,257	-0.2%	8.1%
Cambridgeshire	£312,647	-1.6%	6.2%
Dorset	£306,752	-2.9%	6.1%
South Cambridgeshire	£387,759	-4.9%	5.5%
West Berkshire	£349,539	-4.8%	5.2%
Cambridge	£460,188	-2.1%	3.9%
West Oxfordshire	£345,774	1.7%	3.0%

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
Wales	£187,960	-4.0%	11.6%
North East	£144,935	-3.5%	10.8%
South East	£354,278	-1.3%	8.8%
West Midlands region	£220,759	-4.9%	8.5%
North West	£185,171	-7.6%	8.1%
United Kingdom	**£255,535**	**-3.7%**	**8.0%**
England	**£270,973**	**-4.5%**	**7.0%**
Yorkshire and The Humber	£180,324	-6.8%	6.9%
East Midlands	£214,169	-5.5%	6.9%
East of England	£312,076	-3.8%	6.8%
South West	£277,178	-5.8%	5.2%
London	£494,673	-2.0%	2.2%

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£494,673	-2.0%	2.2%
Prime Central London	£1,115,253	6.2%	-1.2%
South West London	£708,185	2.7%	9.7%

Official House Price data, HM Land Registry, July 2021

Sources: HM Land Registry

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Enfield	£438,360	2.9%	12.7%
Brent	£535,095	3.6%	10.2%
Waltham Forest	£490,728	2.7%	10.2%
Tower Hamlets	£496,344	3.3%	9.6%
Harrow	£495,475	-1.2%	9.5%
Redbridge	£451,284	-0.7%	8.5%
Bromley	£464,008	-2.3%	8.1%
Ealing	£507,902	0.4%	7.2%
Sutton	£401,331	1.6%	7.1%
Hammersmith and Fulham	£810,146	7.9%	6.9%
Barking and Dagenham	£322,949	1.4%	6.5%
Bexley	£366,710	1.2%	6.5%
Kingston upon Thames	£515,249	0.2%	6.0%
Havering	£390,572	-0.1%	4.5%
Hounslow	£413,411	-5.4%	3.9%
Croydon	£389,967	0.1%	3.5%
Richmond upon Thames	£713,880	0.8%	3.4%
Barnet	£536,926	-1.2%	3.3%
Hillingdon	£422,359	-2.2%	3.2%
Southwark	£525,532	3.4%	3.0%
Hackney	£611,666	7.3%	2.9%
Haringey	£554,209	-1.7%	2.6%
Greenwich	£398,099	-5.5%	2.5%
Merton	£540,972	0.2%	2.4%
London	**£494,673**	**-2.0%**	**2.2%**
Wandsworth	£600,530	-1.5%	0.9%
Kensington And Chelsea	£1,332,496	8.4%	0.7%
Camden	£818,260	-2.4%	0.0%
Islington	£651,748	-2.1%	-0.5%
Lewisham	£412,245	-4.4%	-2.0%
City of Westminster	£898,011	3.1%	-3.1%
Newham	£368,631	-3.4%	-3.1%
Lambeth	£510,057	-6.7%	-4.7%
City of London	£705,091	-12.0%	-10.4%
Outer London	£453,182	-0.4%	6.0%
Inner London	£586,951	0.0%	0.8%

HomeLet Rental Index, August 2021

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
Wales	£723	1.4%	12.8%
South West	£1,006	1.7%	11.9%
East Midlands	£742	2.1%	10.7%
Scotland	£758	0.9%	9.5%
UK (excluding London)	**£892**	**1.6%**	**8.1%**
East Of England	£1,021	0.3%	7.0%
UK	**£1,053**	**2.3%**	**6.9%**
West Midlands	£790	2.7%	6.9%
Yorkshire & The Humber	£724	1.7%	6.8%
South East	£1,132	1.2%	5.8%
Northern Ireland	£704	0.0%	5.4%
North West	£820	1.2%	5.0%
North East	£572	3.4%	4.8%
Greater London	£1,713	4.1%	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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