

Residential Briefing Note

February 2022

Market Overview

GDP growth in 2021 reached a strong 7.5%, the highest of the G7 economies. On the face of it this is good reading, but of course it is off the back of an annual decline of 9.4% in 2020 so there was much lost ground to make up. What's more, looking forward things do not look as rosy. Rising inflation and the cost of living, increasing interest rates, the rise in national insurance contributions means that despite growth last year, it is 2022 when the UK's economic resilience might really be tested.

Across the residential market, house price growth continued into January but again with the recent interest rate rises and accelerating inflation we expect demand in the sales sector to begin to fall back to more normal levels. Meanwhile the private rented market is becoming exceptionally active. Tenant demand has soared while the stock of available properties has fallen dramatically, across both rural and urban locations. Many private landlords took advantage of rising house prices over the last 12 months, reducing the stock of properties, and this coupled with many years of landlords leaving the sector anyway has created the perfect storm of supply and demand imbalance leading to unusually high rental growth.

Executive Summary

- *GDP quarterly growth reached 1.0% in the last quarter of 2021, despite a monthly fall in December of 0.2% (in large part due to Omicron-related restrictions).*
- *Retail sales volumes increased in January by 1.9% but it was non-food store sales which buoyed the figure as increasing food prices may be having an impact on overall sales volumes with food store sales down 2.3%.*
- *January's Purchasing Managers Index (PMI) readings for all three main sectors were all positive, despite the manufacturing figure dipping slightly. Encouragingly from the manufacturing industry, many respondents felt the peak of supply-chain constraints may have passed.*
- *Inflation continues to climb, rising to 5.5% in the 12 months to January. Escalating food and fuel prices have provided the largest upward contribution over the last year.*
- *The labour market continues to tighten with a continued low unemployment rate of 4.1% and*
- *another record job vacancy figure of 1.29 million. Wage growth dipped slightly to 3.7% (excl bonuses) and in real terms (adjusted for inflation) fell by 0.8%.*
- *House prices continued rising strongly into the start of the year, with Nationwide reporting annual growth of 11.2% and 9.7% according to Halifax.*
- *Rent rises also continue into the new year as tenant demand soars and available properties plummet. UK rents rose by an annual average of 8.6% according to HomeLet.*
- *Zoopla / Hometrack found that tenant demand during January was more than 75% above where it has been over the previous four years while stock levels are nearly 40% less. This is a firm indication that demand is outstripping supply in the private rented market.*

UK economic backdrop

- GDP fell by 0.2% month on month in December, better than many analysts (and the Monetary Policy Committee) had forecast, and puts quarterly growth at 1.0%. The services sector was the main contributor to the fall, which is not surprising given the Omicron variant was emerging and restrictions were imposed that month. This was partially offset by an increase in output from the construction sector, while the production industry saw virtually no change.
 - Monthly retail sales volumes increased 1.9% in January, following a slump of -4.0% (revised) in December. Non-food store sales rose 3.4% with home improvement and garden centre sales volumes increasing. Food store sales however fell by 2.3%, perhaps as rising food prices force consumers to purchase less.
 - January's UK Manufacturing PMI (collected by IHS Markit / CIPS) dipped below December's figure slightly, to 57.3 down from 57.9. A slowing of growth in new orders was largely to blame while both output and employment figures strengthened during the month. The sector also noted a slight easing in purchase price inflation while supply chain issues also seem to have diminished slightly, with many suggesting the peak of the constraints may now be over.
 - The services sector PMI increased slightly over December's 10-month low of 53.6 to 54.1 for January. New business growth accelerated, as did overall new orders as pandemic-related restrictions loosened and the impact of the Omicron variant eased. Both input and output costs increased this month, at their second-fastest rate since the survey began in 1996 with the price of raw materials, energy bills and employee costs all rising quickly.
 - UK's construction sector PMI increased to 56.3 in January, from 54.3 the month prior. Global supply chain issues are continuing to ease, and this has spurred the sector into action, rising to its highest level since July 2021. Commercial work was the best performing sector while in the house building sector growth eased. New orders rose to their fastest rate since August 2021, although suppliers' lead-in times lengthened yet again, largely due to staffing issues impacting deliveries.
 - Inflation rose again this month, to 5.5% in the 12 months to January, to another over 30-year high. Rising prices for clothing, footwear and furniture and household goods provided the largest upward contribution between December 2021 and January 2022. Food and fuel prices have been rising substantially over the last year, with food and non-alcoholic drinks prices increasing by 4.3% compared with January 2021 while energy prices are up by almost a third. Inflation is still expected to reach 7% by April or May this year before falling back through the remainder of 2022.
 - As discussed last month, the Bank of England's Monetary Policy Committee (MPC) did raise interest rates again in their early February meeting, to 0.5%. This is the second time they have raised rates in just three months and is now the highest level since pre-pandemic when rates were dramatically lowered to 0.10% in April 2020.
 - Interestingly, four of the nine MPC members voted to raise rates to 0.75%. This hints that rates may rise faster than many had originally envisaged, with another rise now expected in the March meeting. A further rise may come in the May meeting, but this will depend on how much further inflation rises over the coming months. The MPC forecast inflation to peak at 7.0% in the second quarter (up from 4.8%) while 2022's GDP growth forecast was downgraded to 3.7% from 5%.
 - The labour market continues to tighten, despite the end of the furlough scheme last September. The employment rate remained steady at 75.5% in the three months to December, as did the unemployment rate, which remains at 4.1%, according to the UK's latest labour market survey.
 - According to early estimates for UK payrolled employees in January 2022, there were 108,000 more people in employment compared with the month prior, an increase of 4.8% compared with January 2021. This is however the slowest rate of monthly growth since April 2021.
 - Job vacancies hit yet another record-high in the three months to January 2022, with a figure of 1.298 million vacant positions. This represents an increase of over half a million since before the pandemic although the rate of growth appears to be slowing. The largest increases in vacancies since pre-pandemic have come from the accommodation and food services sector, followed by manufacturing, transport and storage and the construction industry.
 - Growth in average regular pay (excluding bonuses) was 3.7% in the three months to December, down from 3.8% the month prior. In real terms (adjusted for inflation), regular pay fell by 0.8% in the three months to December 2021.
- *Click to see the [latest market indicators](#) at the end of document*

Residential property market

Sales Prices and Rents

- Nationwide's measure of house prices indicated yet another increase during January, with prices rising 0.8% on the month leading to annual growth of 11.2%. This is the strongest price growth since June 2021 and the bank notes it is the strongest start to the year since 2005. It is difficult to see how this pace of growth will last for much longer given rising inflation and indeed the fact that house price growth has far outstripped wage growth since the pandemic.
- Average UK house price growth remained steady during January, at 9.7% according to Halifax. This reflects a monthly growth figure of 0.3%, the lowest monthly change since June 2021 and marks the end of four straight months of above 1.0% monthly growth. The Bank goes on to say that overall prices have now risen an average of £37,500 compared with two years ago.
- Data from the official house price index (ONS / HM Land Registry) indicates a strong end to 2021 with 10.8% annual average UK growth. This is up slightly from November's figure of 10.7% and reflects a monthly rise of 0.8%. The average UK house price is now £274,712.
- Regionally, the South West again comes out with the strongest annual growth rate of 13.6%, followed again by Wales at 13.0%, the South East (12.6%) and East Midlands (12.1%). As has been the case for most of the last year, London rounded out the bottom of the table with annual growth of 'just' 5.5%.
- Looking at our Carter Jonas office location areas and unsurprisingly the top of the growth table is dominated by the South West areas, which includes four of the top seven: Devon (17.3%), Somerset (15.4%), Cornwall (14.9%) and Dorset (12.9%). Interspersed amongst the SW locations are South Cambridgeshire which ended the year on a punchy rate of 16.6%, North Northamptonshire (14.6%) and Cambridgeshire (14.0%).
- RICS' latest survey into the residential market notes there is no sign that price growth will ease according to respondents: +74% said they saw price rises during January. Price growth was noted by respondents across all regions of the country with the South East and North West witnessing particularly sharp rises. Looking ahead, participants anticipate a further pick-up in house price growth over the longer term, with a +36% net balance across the shorter three-month horizon but +76% across 12-months.

- According to HomeLet's latest report into the private rented sector, average rents in the UK continue to grow, rising by 8.5% annually, up from 8.3% last month. Excluding London though – where rents are increasing rapidly at 12.6% annually – average UK rents are growing at around 6.9%, to reach £897 per calendar month.
- Rightmove's Quarterly Rental Trends Tracker (Q4 2021) has recently been published where it was found that rents across the UK are rising at their fastest ever rate, reaching 9.9% outside London, 10.9% inside London. The report goes on to say that average rents are now growing faster than average house prices in all but three regions (East Midlands, South West and South East). Looking ahead, the web portal predicts strong demand and limited supply will continue to put upward pressure on rents, and they will therefore rise by an average of 5% throughout 2022.

Activity

- Mortgage approvals in December ticked up slightly over November, to reach 71,015. This figure is around 5% above the long-term December average, suggesting there is still no let-up in housing demand. As mortgage rates rise and wage growth doesn't keep pace with inflation, we expect that the demand for house purchases will begin to wane throughout the early part of 2022.
- December's residential property transactions rose to just over 100,000, an increase of nearly 8% over November's figure (according to HMRC). This brings the 2021 annual total to 1.49 million residential sales, 43% above 2020's figure and 40% above the long-term annual average.
- The January edition of the RICS residential market survey found that +16% of respondents cited an increase in enquiries during the month, the strongest figure since May 2021. New instructions however remained negative at -8% although this is the 'least negative' since April 2021. Near-term sales expectations came in at a ten-month high of +22% while a net balance of +24% of respondents envisage sales volumes rising over the longer 12-month period.
- In the lettings market, the latest ARLA PropertyMark report on the private rented sector reports that the demand and supply imbalance in the sector continues. The average number of new tenants reached 67 per branch in December, the highest number recorded for the month of December. On the other hand, the figure for properties that are available to rent has fallen dramatically, particularly in London, where per member branch there are just four available and empty properties, down from 14 the year before.

- Rightmove's Q4 2021 rental index report notes that the imbalance between tenant demand and available rental properties has risen 94% compared with the same period one year prior. It goes on to say that total rental demand is up by 32% over last year while the number of available properties is down 51%. Let's not forget though that the time period being compared with (Q4 2020) was much quieter than usual in the rental market and so these comparisons are being made from a very low base.
- The latest Hometrack / Zoopla rental market report makes very clear that tenant demand is soaring while rental stock has fallen significantly: their report found that tenant demand is 76% higher than during the same period over the previous four years while at the same time the stock of available new properties was 39% less.
- Back to the RICS survey and in the rental market they find that +64% of contributors noted an increase in tenant demand, the strongest reading of this indicator on record (dating back to 1999). On the flip side, landlord instructions are still in decline, with a net balance of -13%.



HM Treasury Forecasts for the UK Economy, February 2022

Sources: HM Treasury Consensus Forecasts (February 2022)

	2022	2023	2024	2025	2026
Official Bank Rate (%)	1.08	1.38	1.39	1.49	1.53
House Price Growth (annual, %)	2.5	1.8	1.9	2.4	2.7
CPI inflation rate (annual average, %)	4.7	2.3	2.0	2.0	2.0
Unemployment rate (%)	4.1	4.0	3.9	3.9	3.9
GDP (annual, %)	4.4	2.0	1.6	1.6	1.6
Average earnings growth (annual, %)	4.2	3.4	3.1	3.2	3.3

Select Market Indicators, latest versus previous data

Sources: ONS (unless otherwise indicated) (final six indicators retrieved 17 February)

	Current	Previous	Direction of change
GDP monthly (month-on-month)	-0.2%	0.9%	↓
Retail sales volume (monthly % change)	1.9%	-4.0%	↑
IHS Markit / CIPS Manufacturing PMI	57.3	57.9	↓
IHS Markit / CIPS Construction PMI	56.3	54.3	↑
IHS Markit / CIPS Services PMI	54.1	53.6	↑
Inflation rate (CPI)	5.5%	5.4%	↑
Interest rate	0.50%	0.25%	↑
Employment rate	75.5%	75.5%	↔
Unemployment rate	4.1%	4.1%	↔
Weekly earnings growth, regular pay (excl bonuses)	3.7%	3.8%	↓
Nationwide annual house price inflation	11.2%	10.4%	↑
Halifax annual house price inflation	9.7%	9.7%	↔
Official UK House Price inflation (annual)	10.8%	10.7%	↑
HomeLet Rental Index (annual growth, UK)	8.5%	8.3%	↑
£ Sterling: \$ USD	\$1.36	\$1.36	↔
£ Sterling: € Euro	€1.19	€1.20	↓
Brent Crude (USD)	\$92.83	\$88.46	↑
Gold (USD)	\$1,893.90	\$1,818.05	↑
FTSE 100	7,503.09	7,574.29	↓
UK 5 Year Gilt Yield	1.3370	1.0640	↑

Official House Price data, HM Land Registry, Dec 2021

Sources: HM Land Registry

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
Devon	£324,746	1.6%	17.3%
South Cambridgeshire	£439,222	1.2%	16.6%
Somerset	£290,429	1.9%	15.4%
Cornwall	£298,660	1.1%	14.9%
North Northamptonshire	£251,477	1.9%	14.6%
Cambridgeshire	£340,651	0.7%	14.0%
Dorset	£346,239	2.2%	12.9%
York	£304,846	1.9%	12.8%
Suffolk	£288,093	0.8%	12.0%
West Oxfordshire	£376,538	-1.6%	11.9%
South Oxfordshire	£502,929	-0.1%	11.8%
Harrogate	£326,012	1.0%	11.5%
West Northamptonshire	£281,975	0.6%	11.0%
Wiltshire	£319,841	2.0%	10.7%
Vale of White Horse	£407,404	1.1%	10.5%
Bath and North East Somerset	£399,981	4.0%	10.2%
West Berkshire	£393,948	0.9%	9.5%
Leeds	£221,412	1.4%	8.2%
Winchester	£474,787	0.3%	8.1%
Cambridge	£470,086	-4.7%	5.8%
Oxford	£446,411	-3.0%	2.0%

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
South West	£314,037	1.9%	13.6%
Wales	£204,835	2.0%	13.0%
South East	£380,237	1.6%	12.6%
East Midlands	£235,004	1.1%	12.1%
East of England	£339,502	0.4%	11.7%
West Midlands region	£238,238	2.6%	11.5%
United Kingdom	£274,712	0.8%	10.8%
England	£293,339	1.1%	10.7%
North West	£200,172	0.6%	10.2%
Yorkshire and The Humber	£196,877	1.8%	9.8%
North East	£147,214	-1.5%	5.9%
London	£521,146	0.2%	5.5%

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£521,146	0.2%	5.5%
Prime Central London	£1,202,720	-0.6%	8.9%
South West London	£741,071	2.5%	10.3%

Official House Price data, HM Land Registry, Dec 2021

Sources: HM Land Registry

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Camden	£915,362	4.2%	16.2%
Hammersmith and Fulham	£825,487	3.8%	15.5%
Islington	£764,286	1.6%	15.3%
City of Westminster	£1,031,431	3.8%	15.1%
Richmond upon Thames	£771,661	2.0%	12.0%
Bexley	£390,342	1.4%	10.7%
Harrow	£517,508	3.5%	10.0%
Barnet	£578,382	0.4%	9.5%
Redbridge	£479,896	0.8%	8.8%
Kingston upon Thames	£537,977	-1.5%	8.5%
Barking and Dagenham	£331,894	-0.4%	7.7%
Sutton	£422,075	0.0%	7.5%
Croydon	£406,896	-0.2%	7.1%
Bromley	£484,466	0.1%	7.0%
London	£521,146	0.2%	5.5%
Havering	£396,397	-0.6%	5.2%
Merton	£580,896	0.9%	5.1%
Greenwich	£420,364	-0.8%	4.8%
Ealing	£518,623	-1.2%	4.6%
Newham	£399,569	0.6%	4.6%
Enfield	£431,074	-1.4%	4.6%
Brent	£518,129	0.7%	4.0%
Lewisham	£453,295	0.0%	3.5%
Wandsworth	£626,064	1.6%	3.3%
Kensington And Chelsea	£1,374,008	-3.7%	2.7%
Hillingdon	£436,916	-1.1%	2.7%
Southwark	£553,470	3.0%	2.7%
Waltham Forest	£484,621	0.8%	2.7%
Lambeth	£547,370	-0.1%	2.4%
Hounslow	£437,179	1.2%	2.0%
Haringey	£585,338	-1.2%	0.4%
Hackney	£572,278	2.1%	-1.9%
Tower Hamlets	£442,028	-0.7%	-4.9%
Outer London	£471,575	0.2%	6.6%
Inner London	£616,979	1.2%	4.7%

HomeLet Rental Index, January 2022

Source: HomeLet Rental Index

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
Greater London	£1,760	0.5%	12.6%
North West	£855	1.3%	10.3%
Scotland	£747	1.2%	9.4%
Northern Ireland	£705	-2.6%	8.8%
UK	£1,064	0.4%	8.5%
Wales	£727	-1.2%	7.7%
South West	£989	0.6%	7.6%
North East	£578	-0.3%	7.0%
UK (excluding London)	£897	0.4%	6.9%
West Midlands	£792	0.8%	6.9%
East Midlands	£746	0.5%	6.9%
Yorkshire & Humberside	£726	-1.5%	6.8%
East Of England	£1,035	0.4%	5.7%
South East	£1,128	0.4%	3.1%

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 34 offices and 800 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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