

# RESIDENTIAL BRIEFING NOTE

JANUARY 2022

## Market Overview

*It has only been one month since our last report when we wrote about the new and highly transmissible COVID variant, Omicron and the new imposed 'Plan B' restrictions that resulted. And yet here we are just five weeks later writing about the lifting of said restrictions; case numbers peaked in early January and have been falling steadily ever since. The vaccination and booster campaigns appear to have helped as both hospitalisations and deaths did not rise by, nor reach, levels anywhere near what had been seen this time last year. The limited restrictions and the early lifting of them, indicates a government that is keen to balance the well-being of the economy with public health.*

*In the residential market, strong house price growth continued in December, even during what is usually a quieter time of the year. What's more, demand across both the sales and lettings markets remains unabated into the new year as new buyers and tenants continue their searches. However, with the recent rise in interest rates and high inflation that will inevitably impact disposable incomes, it is probable that demand in the sales market may begin to taper off slightly. This may be no bad thing though as lessening demand will bring balance back into the market and a more sustainable level of house price growth.*

## Executive Summary

- GDP increased by 0.9% in November, with all sectors indicating good levels of output growth in the month. GDP is now above its pre-pandemic (February 2020) level for the first time.
- Monthly retail sales volumes contracted sharply in December, down 3.7%. Both Omicron-related restrictions and the bringing forward of Christmas gift purchasing to November will have impacted sales.
- All three Purchasing Managers Index (PMI) sectors declined during December over their November figures. The services PMI fell the most as face-to-face spending dropped due to COVID restrictions. Nevertheless, they all indicated expansion with a reading above '50'.
- Inflation reached a 30-year high of 5.4% in December, up from 5.1% last month and above analyst expectations. The rising prices for energy, fuel and food are placing upward pressure on costs.
- Another record level of job vacancies was reported in the latest labour market survey, reaching 1.25 million in the three months to November. It does not appear that employers are responding by hiking wages just yet, with annual growth now at 3.8%, down from 4.3% last month.
- Annual house price growth ended the year strongly with both Nationwide and Halifax recording even higher figures than November, at 10.4% and 9.8%, respectively.
- Rental growth also ended the year robustly with HomeLet recording an 8.2% average annual increase across the UK, including another strong rise in Greater London, at 12.6%.
- More timely data from Rightmove found that both buyer enquiries and sales valuation requests in the first few weeks of January were up over the same period last year.

## UK economic backdrop

- Monthly GDP is estimated to have grown by 0.9% in November, up from 0.1% the previous month and means that GDP is now finally above its pre-coronavirus pandemic level for the first time. There was an increase in output across all sectors in November, with construction output increasing by a strong 3.5%, followed by production at 1.0% and services at 0.7%.
  - Retail sales volumes declined sharply in December, down 3.7% compared with November's figure. It is probable that wide media reports of product unavailability may have brought forward Christmas gift purchases into November, hence the marked slowdown in December. Omicron, too, will have played a part as there was a nearly 5% fall in petrol sales while people stayed home. On the upside though food store sales declined by just 1% while again people stayed home and avoided restaurants.
  - GfK's Consumer Confidence index was also down, falling to -19 in January, from December's figure of -15. All five sub-measures recorded declines with the General Economic Situation both forwards and backwards looking falling by a generous eight points. The Major Purchase Index also declined by four points, to -10 but this is a long way off the same time last year when the figure was -24. Nevertheless, it would seem that consumers are feeling nervous about widespread inflation and further interest rate rises, despite the easing of COVID-related restrictions and falling virus numbers.
  - The IHS Markit / CIPS UK Manufacturing PMI for December declined slightly to 57.9 but still pointed to growth in production, new orders and employment in the sector. Issues surrounding logistics, transport, Brexit difficulties and possible further COVID restrictions appears to be holding back new orders as this fell for the fourth month in a row. Price inflation has hit another record high in the industry with input prices rising sharply, including both raw materials and transport.
  - In the construction sector, December's IHS Markit / CIPS PMI also fell, down to 54.3 from 55.5 the month before. This is the weakest rate of expansion in the sector for three months with commercial building easing while civil engineering work also contracted, following nine months of expansion. Residential construction however was the only sub-sector to grow during the month.
  - A sharp fall in face-to-face spending during December, due to the Government's 'Plan B' restrictions and rising Omicron-related staff absences, led to the Services sector PMI falling to 53.2, down from 58.5 in November. This marks the lowest expansion rate in the sector since February 2021
- when the country was under very tight restrictions due to COVID. Job creation however remained strong and cost pressures appear to have weakened slightly since November's peak.
- CPI inflation rose to 5.4% in December, up from 5.1% the month before and above consensus expectations of 5.2%. This is now the highest rate of inflation in almost 30 years. The largest upward contributions on an annual basis have come from rising prices for housing and household services (rising energy prices) as well as transport (strong growth in motor fuel costs). On a monthly basis food and non-alcoholic beverages rose the most between November and December, as well as restaurants and hotels, furniture and clothing.
  - There is no January meeting of the Bank of England's Monetary Policy Committee, and so no change to the current Bank Rate of 0.25%. The next meeting will be held on 3 February, and while it had not been expected that the Bank would raise rates (they have not raised rates at consecutive meetings since 2004), the latest inflation figures may force their hand. Some analysts have therefore brought forward their expectations of a rate rise to the February meeting.
  - The UK unemployment rate was estimated at 75.5% in the three months to November, unchanged from October's figure according to the latest labour market survey. The unemployment rate meanwhile decreased slightly to 4.1% from last month's figure of 4.2% and just 0.1 percentage points above the pre-pandemic level in February 2020.
  - The ONS' measure of payrolled employees found there were an additional 184,000 employees in the UK in December compared with November. This means there are now 409,000 more employees than in February 2020 (pre-pandemic).
  - The number of job vacancies meanwhile remains at a record-high as the figure increased yet again to 1.25 million in the three months to December. The largest increase was in the health and social work category where there are currently 206,000 vacancies. Further large increases were seen in accommodation and food services, and professional, scientific and technical activities.
  - Despite the high vacancy levels employers don't appear to be raising wages substantially, in order to retain staff. Average wage growth (excluding bonuses) is up just 3.8% in the three months to November according to ONS figures while the latest report from XperTHR found that median pay settlement is 2.2% in the three months to November, increasing only slightly from 2.0% earlier in the year.

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

## Residential property market

### Sales Prices and Rents

- UK house prices ended the year by increasing yet again, to 10.4% in December, up from 10% the month prior, according to Nationwide. This marks the highest annual price growth since 2006, with the average UK home increasing by nearly £24,000 during 2021. On a regional and country basis Wales recorded the strongest growth at 15.8%, followed by Northern Ireland (12.1%), the South West (11.5%) and the 'Outer' South East (11.3%). Unsurprisingly, London came last with annual house price inflation of 4.2%.
- A similar trend was noted by the Halifax in their end of year report, where they found house price growth increased to 9.8% in December, a hefty increase over November's 8.2% figure and reflecting a monthly increase of 1.1%. The Halifax report goes on to say that similar to Nationwide, their figures suggest the average UK house price has therefore increased by around £24,500, the largest annual increase since 2003 according to their records.
- The official house price index from ONS / HM Land Registry shows annual inflation in November reached 10.0% across the UK, up from (a revised) October figure of 9.8%. On a monthly basis prices continue to grow rapidly, increasing by an average of 1.2% in the UK and 1.4% in England.
- On a regional basis the South West has knocked Wales from the top spot (for the first time in many months) with annual growth of 12.9%, followed by the East of England (12.3%) and then Wales at 12.1%. As has been the case for the best part of 2021 London house price inflation is still at the bottom of the table with growth recorded at 5.1% annually.
- Across our Carter Jonas locations house price growth was well above the UK average in many of our areas: Devon has posted growth of a colossal 17.3% in the 12 months to November followed by its neighbour Cornwall at 15.5%. South Cambridgeshire has posted rapid monthly growth of 3.6% in November leading to an annual rise of 14.4%, just above Cambridge at 14.0%.
- Rightmove's January house price index report shows that there has been no let-up in demand with the average price of property coming to the market up by 0.3% over December. On an annual basis prices are up 7.6% higher than January last year with the web portal noting this is the highest annual rate of growth in over five years. Their figures go on to

note that first-time buyer asking prices were up a robust 1.4% over December with strong demand continuing to fuel price growth.

- The latest RICS residential market survey also pointed to a further increase in prices during December with +69% of survey participants citing a rise during the month. All areas surveyed noted a strong uplift in prices with feedback indicating no let-up in momentum. Price expectations over the coming 12 months were also strong with +67% suggesting they will continue to grow.
- Rental growth across the UK continues to climb sharply, rising 8.3% throughout the year, according to HomeLet's latest report on the private rented sector. Rents grew in every country and region with Greater London again showing the highest annual increase at 12.6%, followed by Northern Ireland at 11.2%, the North West (9.3%) and Wales (8.4%).
- Rental growth over the short term looks set to stay strong, according to feedback from the latest RICS survey. +57% of respondents expect growth, and this was the case across all regions of the UK, both in the short and longer-term.

### Activity

- Bank of England mortgage approvals data declined only very slightly in November, to 66,964, down less than half of one percent from October. Year to date figures are now 874,000, nearly 30% above the long-term average over the last decade of 685,000.
- Latest data from HMRC indicates that property transactions increased in November, up nearly 25% over October's figure (which itself was slightly lower due to the final end of the SDLT in September), to reach 96,300. This brings the year-to-date total transactions for 2021 to 1.39 million and even with one more month still to go this is the highest figure since 2007 when 1.61 million transactions were recorded.
- More up to date data notes that strong demand continues in the sales market even into 2022 with Rightmove noting buyer enquires are up 15% compared with the same time last year. On the other hand, the number of available homes for sale per estate agent has dropped to record



lows. Encouragingly, they go on to say that during the first 'working week' of 2022 the number of home valuation requests was up 44% over the same period last year indicating that more supply may be on the way. This will be much needed in a market where demand has continually outstripped supply over many months now. But valuation requests do not always turn into instructions or houses on the market and this remains to be seen.

- The demand and supply imbalance in the housing sales market was still strongly evident in RICS's December market survey and it is now the fourth month in a row of a positive reading for new buyer enquiries. This increase in demand however is noted as only 'modest' and it is against a backdrop of

falling new instructions where the net balance figure was -14% indicating a decline in new listings, this being the ninth consecutive month of falling supply. Agreed sales have also fallen, however this may be in part due to the holiday season. On a positive note, +14% of respondents expected sales volumes growing over both the three-month and 12-month horizon.

- Across the lettings market, the RICS survey notes that there continues to be strong growth in tenant demand across all parts of the UK. On the other hand, landlord instructions continue to decline with 27% more respondents noting a decline in instructions than those citing a rise.

## HM Treasury Forecasts for the UK Economy, January 2022

	2021	2022	2023	2024	2025
<b>Official Bank Rate (%)</b>	0.28	0.84	1.32	1.69	1.73
<b>House Price Growth (annual, %)</b>	8.9	3.2	0.4	0.8	1.8
<b>CPI inflation rate (annual average, %)</b>	4.7	4.0	2.6	2.5	2.3
<b>Unemployment rate (%)</b>	4.4	4.1	4.2	4.1	4.1
<b>GDP (annual, %)</b>	7.1	4.4	2.2	1.6	1.5
<b>Average earnings growth (annual, %)</b>	5.6	3.9	3.4	3.3	3.4

Sources: HM Treasury Consensus Forecasts (2021 & 2022, January 2022, 2023-25 November 2021)



## Select Market Indicators, latest versus previous data

	Current	Previous	Direction of change
<b>GDP monthly (month-on-month)</b>	0.9%	0.1%	↑
<b>GfK Consumer Confidence Index</b>	-19	-15	↓
<b>Retail sales volume (monthly % change)</b>	-3.7%	1.4%	↓
<b>IHS Markit / CIPS Manufacturing PMI</b>	57.9	58.1	↓
<b>IHS Markit / CIPS Construction PMI</b>	54.3	55.5	↓
<b>IHS Markit / CIPS Services PMI</b>	53.6	58.6	↓
<b>Inflation rate (CPI)</b>	5.4%	5.1%	↑
<b>Interest rate</b>	0.25%	0.25%	↔
<b>Employment rate</b>	75.5%	75.5%	↔
<b>Unemployment rate</b>	4.1%	4.2%	↓
<b>Weekly earnings growth, regular pay (excl bonuses)</b>	3.8%	4.3%	↓
<b>Nationwide annual house price inflation</b>	10.4%	10.0%	↑
<b>Halifax annual house price inflation</b>	9.8%	8.2%	↑
<b>Official UK House Price inflation (annual)</b>	10.0%	9.8%	↑
<b>Rightmove HPI (annual asking prices)</b>	7.6%	6.3%	↑
<b>HomeLet Rental Index (annual growth, UK)</b>	8.3%	8.6%	↓
<b>£ Sterling: \$ USD</b>	\$1.36	\$1.32	↑
<b>£ Sterling: € Euro</b>	€1.20	€1.17	↑
<b>Brent Crude (USD)</b>	\$88.46	\$74.50	↑
<b>Gold (USD)</b>	\$1,818.05	\$1,784.17	↑
<b>FTSE 100</b>	7,574.29	7,241.23	↑
<b>UK 5 YEAR GILT YIELD</b>	1.0640	0.6725	↑

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

## Official House Price data, HM Land Registry, November 2021

Sources: HM Land Registry

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
Devon	£323,815	4.2%	17.3%
Cornwall	£294,022	2.3%	15.5%
South Cambridgeshire	£433,553	3.6%	14.4%
Somerset	£284,415	2.1%	14.3%
Cambridge	£504,952	3.4%	14.0%
West Oxfordshire	£382,689	-0.3%	13.6%
Cambridgeshire	£337,961	2.5%	13.3%
York	£302,617	3.5%	13.2%
North Northamptonshire	£245,547	-0.3%	12.0%
Suffolk	£286,311	2.3%	11.6%
Dorset	£338,068	1.6%	11.6%
Oxford	£479,289	0.6%	11.5%
Wiltshire	£316,932	0.8%	10.4%
Winchester	£475,890	2.3%	9.9%
Harrogate	£316,702	1.7%	9.5%
West Northamptonshire	£275,221	0.7%	9.2%
West Berkshire	£393,620	-0.1%	8.9%
South Oxfordshire	£483,780	-3.8%	8.4%
Vale of White Horse	£397,552	-1.4%	7.6%
Leeds	£217,725	1.1%	7.4%
Bath and North East Somerset	£378,152	-5.4%	5.2%

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
South West	£308,497	2.5%	12.9%
East of England	£336,937	2.1%	12.3%
Wales	£199,877	-0.7%	12.1%
North West	£197,797	2.3%	10.8%
East Midlands	£229,277	0.4%	10.7%
<b>United Kingdom</b>	<b>£270,708</b>	<b>1.2%</b>	<b>10.0%</b>
<b>England</b>	<b>£288,130</b>	<b>1.4%</b>	<b>9.8%</b>
West Midlands region	£230,888	1.9%	9.8%
South East	£369,093	0.5%	9.6%
North East	£149,249	1.8%	8.7%
Yorkshire and The Humber	£191,036	1.0%	7.2%
London	£519,934	0.2%	5.1%

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£519,934	0.2%	5.1%
Prime Central London	£1,147,450	-6.3%	4.8%
South West London	£726,515	-1.9%	6.0%



## Official House Price data, HM Land Registry, November 2021

Sources: HM Land Registry

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Camden	£961,390	9.9%	17.9%
Islington	£771,374	6.5%	15.3%
Kingston upon Thames	£541,681	0.2%	9.9%
Richmond upon Thames	£758,967	-0.5%	9.8%
Enfield	£444,336	1.9%	9.8%
Barking and Dagenham	£331,231	-0.2%	9.1%
City of Westminster	£978,912	-4.9%	9.0%
Bexley	£377,627	-0.6%	8.9%
Hammersmith and Fulham	£804,605	-2.5%	8.8%
Redbridge	£474,321	-0.9%	8.5%
Sutton	£421,497	0.5%	8.1%
Newham	£406,362	5.1%	7.9%
Bromley	£481,569	-0.2%	7.8%
Harrow	£498,836	0.8%	7.3%
Croydon	£407,462	2.5%	6.8%
Barnet	£564,441	0.4%	6.6%
Hillingdon	£444,303	-1.0%	6.6%
Ealing	£521,284	0.6%	5.8%
Havering	£392,786	-1.8%	5.5%
<b>London</b>	<b>£519,934</b>	<b>0.2%</b>	<b>5.1%</b>
Greenwich	£426,728	0.5%	5.0%
Haringey	£603,949	-1.5%	4.0%
Merton	£562,168	-0.6%	2.4%
Lewisham	£448,522	-1.1%	2.2%
Southwark	£537,251	1.4%	2.0%
Waltham Forest	£477,214	-3.8%	1.6%
Kensington And Chelsea	£1,315,987	-7.3%	0.7%
Brent	£520,608	0.5%	0.4%
Wandsworth	£615,972	-2.8%	-0.5%
Lambeth	£535,762	-2.9%	-1.0%
Hounslow	£426,744	-1.1%	-1.5%
Tower Hamlets	£460,472	2.9%	-1.8%
Hackney	£542,886	-2.6%	-8.5%
Outer London	£468,285	-0.1%	6.4%
Inner London	£610,900	-0.3%	3.0%

## HomeLet Rental Index, December 2021

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
Greater London	£1,752	-0.3%	12.6%
Northern Ireland	£724	-1.8%	11.2%
North West	£844	1.1%	9.3%
Wales	£736	-0.8%	8.4%
<b>UK</b>	<b>£1,060</b>	<b>0.2%</b>	<b>8.3%</b>
Yorkshire & Humberside	£737	0.1%	8.1%
North East	£580	0.9%	7.6%
Scotland	£738	-0.3%	7.4%
West Midlands	£786	0.1%	6.9%
East Midlands	£742	1.8%	6.9%
<b>UK (excluding London)</b>	<b>£893</b>	<b>0.4%</b>	<b>6.6%</b>
South East	£983	2.0%	6.4%
East of England	£1,031	0.1%	4.9%
South West	£1,123	-0.5%	3.5%

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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