

Residential Briefing Note

July 2022

Market Overview

GDP growth for May was a pleasing surprise of +0.5%, with each of the main sectors posting expansion. However, the timelier data from the Purchasing Managers Index points to some challenges to come as both manufacturing and construction figures declined in June over the previous month. The labour market continues to show resilience with an unemployment rate at nearly its lowest rate in almost 60 years. The problem - following two years of pandemic - no longer appears to be redundancies and job losses but rather a shortage of people to fill the million plus job vacancies that are currently unfilled.

In the residential sales market, latest data again shows double-digit annual sales price growth as robust demand continues amid constrained available supply. We continue to expect demand to soften over the coming months as rising cost inflation and increasing interest rates dampen the market. Having said that, Bank of England mortgage approvals data for May showed virtually no change in the number of approvals over the previous month, a figure that is in line with the longer-term average.

Executive Summary

- *Following two months of declines, GDP grew by +0.5% in May, above consensus expectations. Both production and manufacturing saw an increase in the month, as did construction and services output.*
- *May's retail sales volumes figures were downwardly revised to -0.8%, while the latest figures for June suggest a fall of 0.1%. Auto fuel sales fell the most as consumers bought less due to high prices.*
- *Consumer confidence remained flat at -41 in July as consumers see little to be positive about amid rising prices, interest rates and their overall financial and economic situations.*
- *Increased spending on travel, leisure and events increased the Services sector Purchasing Managers Index (PMI) over the previous month's figure, but by contrast both Construction and Manufacturing PMIs declined in June over May. All three indices are still sitting above '50' which indicates expansion.*
- *Rising petrol prices, together with electricity and gas costs helped push inflation higher yet again in June, reaching 9.4% over the last 12 months. This is another record-high with prices at the pumps alone increasing by 42% since June 2021.*
- *The labour market remained stable again this month with unemployment at 3.8%. The number of full-time employees reached a record high but there are still nearly 1.3 million job vacancies.*
- *Regular wages grew by an average of 4.3% annually but with inflation so high this resulted in a fall of 2.8% in real terms.*
- *Once again house prices maintained double-digit growth figures according to both the Nationwide and Halifax main indices. Rather surprisingly the Halifax index showed an increase over May's figure to reach 13.0% annually, while Nationwide's data indicated a small decline from 11.2% in May to 10.7% in June.*
- *Rental growth remains remarkably elevated as the demand / supply imbalance continues in all parts of the country. Rightmove's latest quarterly rental index found that at 11.8% (annually) this is the fastest pace of rental growth for at least 16 years.*

UK economic backdrop

- GDP grew by a surprise +0.5% in May following April's (upwardly revised) 0.2% fall and above expectations of flat growth. This means GDP has grown by 3.5% in the 12 months to May. Services output grew by 0.4%, mainly driven by a rise in human health and social services, reflecting a high number of GP appointments, while production grew by 0.9% and construction increased by 1.5%. Housebuilding saw the biggest increase across the construction sector.
- Latest ONS data finds that retail sales fell by 0.1% in June, following a (downwardly revised) fall of 0.8% in May. Auto fuel volumes fell by 4.3% in June as people looked to buy less fuel due to record-high petrol pricing. There were falls in clothing and household goods (furniture stores) also recorded while food store volumes increased by 3.1%, with Jubilee celebrations cited as boosting food sales that month.
- UK consumer confidence remained at historic lows in July, staying flat at -41. Soaring food and fuel prices as well as rising interest rates are contributing to the glum mood of the nation, according to GfK's latest Consumer Confidence Index. All five sub-indices remained virtually unchanged, with the general economic situation indices remaining very low at -66 (last 12 months) and -57 (next 12 months).
- The latest S&P Global / CIPS UK Manufacturing PMI declined to 52.8 in June, down from 54.6 in May and marking a two-year low. Output growth has now stalled, and new orders contracted for the first time in 17 months. Drilling down into the various industry sectors and consumer goods producers showed a downturn in output while expansion was found in the investment goods industries. Inflation across most goods, raw materials and commodities is still very high, with some materials experiencing global shortages.
- Meanwhile the latest Services sector PMI showed an increase over May's figure, moving from 53.4 (revised) to 54.3 in June. The increase was due to an increase in consumer spending on travel, leisure and events during the month. Firms surveyed noted that business confidence remains low, with new work orders having grown at their slowest rate in 16 months, recruitment and retention of staff remains difficult, and costs for energy, fuel, and wages continue to rise.
- The UK Construction PMI fell in June, to 52.6 down from 56.4 in May and is the slowest growth in this sector since September 2021. New orders rose at their lowest rate in eight months, and suppliers' delivery times increased yet again. Staff shortages and the inability to move around due to public transportation issues and wider logistics issues during the month were cited as reasons for longer wait times and weaker growth. Again, cost inflation rose in June compared with May and higher costs came mainly from energy, fuel and transport.
- CPI inflation rose again in June, to 9.4% up from 9.1% the previous month, again the highest rate since the series began in 1997. Increasing costs from electricity, gas, fuels and motor fuels contributed the most to inflation in the last 12 months. Petrol prices alone rose by 42.3% on the year, with the average price per litre of 184 pence in June 2022 compared with 129.7 pence a year earlier. Over just the last month petrol prices have risen by an average of 18 pence per litre.
- There was no Monetary Policy Committee meeting in July, so interest rates remain at 1.25%. The next meeting in early August is likely to result in another modest increase of 25 basis points as the MPC's task of bringing down inflation is its foremost function.
- This month's labour market survey reports that the UK employment rate increased slightly to 75.9% in the three months to May, up from 75.6% previously. The number of full-time employees was found to have reached a record high, while part-time employees also grew. The unemployment rate meanwhile remained unchanged at 3.8% although the report notes that those unemployed for up to six months has risen at the fastest rate since late 2020.
- Job vacancies in the three months between April and June rose to 1.294 million but the pace of growth continues to slow.
- Wage growth meanwhile remains largely unchanged, ticking up ever so slightly to 4.3% (regular pay, excluding bonuses). Yet again though in real terms this marks a significant fall of 2.8% when adjusted for inflation.

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

Residential property market

Sales Prices and Rents

- Nationwide's June house price index shows a slowing pace of growth, moving from 11.2% (annually) in May, to 10.7% in June. This is clearly a very small decline in pace as it marks the eighth consecutive month of double-digit growth. On a regional basis the South West has overtaken Wales this quarter, as having the highest growth rate of 14.7% followed by East Anglia at 14.2%. London is still at the bottom of the table with a more modest figure of 6.0% annual growth.
- In contrast, Halifax's index showed house price growth rising in June, moving from 10.7% in May to a robust 13.0% currently. On a monthly basis house prices were found to have risen by 1.8%, the 12th month in a row of growth. The bank's report goes on to say that the supply-demand imbalance is squarely to blame for the sharp rise and although activity is now back to pre-Covid averages, demand is still strong.
- The average price of a property across the UK rose by 12.8% in the 12 months to May, according to HM Land Registry's latest official house price figures. This is up from April's (revised) figure of 11.9% and means the average property price is now £283,496.
- Across the regions, this month Wales moved down to fourth from the top with annual price growth of 14.4%. The South West though was once again showing very strong growth of 16.9% followed by the East Midlands at 15.2% and East of England with 14.8% annual price growth. As has been the case for almost two years now, London is still bottom of the price growth table but at 8.2% annual growth this is the highest rate the capital has seen since August 2016.
- Of our Carter Jonas tracked locations Cornwall has come at the top with 17.3% annual price growth followed by West Oxfordshire (16.7%), Vale of White Horse (16.0%) and North Northamptonshire (15.7%). The most expensive location of our tracked areas is Winchester at an average price of £490,955 followed by South Oxfordshire (£489,780) and Cambridge (£479,909).
- As mentioned above, London saw some strong price growth in the 12 months to May at 8.2% on average. This was mostly buoyed by the outer suburban boroughs, with these 20 boroughs averaging 7.7% annual growth, while eight of the bottom ten areas were inner London locations.
- The RICS residential market survey points to the limited supply of available stock continuing to place upward pressure on prices, despite a softening in demand. A net balance of +65% of respondents noted an increase in pricing, although this is down from +79% in April. Compare this to the long-run average of +13%. Over the year ahead +37% of RICS survey respondents felt that prices would continue to rise, although this is down from +78% in February.
- The average asking price of a home coming to market rose by 9.7% annually (June, latest data) according to Rightmove, down from 10.2% the previous month. This means the average price of a property coming to the market is £368,614 although the monthly rise of 0.3% is more modest. The web portal's report goes on to say that affordability constraints due to rising inflation and mortgage costs will undoubtedly lead to dampening demand, while at the same time they expect to see the usual seasonal 'price drops', all of which will contribute to a slower pace of house price growth in the coming months.
- There was virtually no change in average annual rental growth this month, according to HomeLet's latest rental index. At 10.5% this is only marginally down from May's 10.6% UK figure. London has again posted the highest growth figure at 14.9% annually although this is down from 15.7% last month. Again, the South west (11.1%) the North West (10.5%) and Scotland (10%) were the other regions that saw double-digit rental growth this month.
- Rightmove's quarterly rental index also shows very punchy rental growth across all areas of the country, leading to a national average increase of 11.8% over the last year. According to their data, year on year growth reached double digits in every country and region covered in the report, with the highest in London (15.8%) and the lowest in the East Midlands (10.3%). Average asking rents outside of London have now grown by 19% in the two years since the pandemic began, the same growth previously took eight years to achieve.
- Back to the RICS survey and rental growth expectations over the short term fell slightly with a +52% balance of respondents expecting an increase, down from +58% the previous month and +63% in April.



Activity

- Interestingly, approved mortgages remained stable in May, reaching 66,163, up slightly from April's (revised) 66,064 figure. We had anticipated that April would mark the beginning of slowing mortgage figures as interest rates and other cost inflationary pressures rose and squeezed consumers spending, and although these figures are down by nearly a quarter from the same month one year ago, they are almost exactly in line with the pre-covid long run average of 66,873 approvals per month.
- Monthly property transactions fell below 100,000 for the first time since December 2021, with June's figure of 95,420. This reflects a drop of 8% over the previous month and a massive 52% decline from June 2021 which marked the end of the larger tier stamp duty tax break. What's more, it is also around 5% below the long-term pre-COVID average of 100,886 transactions per month. This may mark the first tangible sign of a slow down in the sales market.
- The supply / demand imbalance is becoming 'less extreme' according to Zoopla's latest house price index report. In the four weeks to late June the publication found that although demand is still 40% above the long-run average, this is down from 61% last month. The flow of new supply is up too, indicating new available properties are 4% above their five-year average.
- This month Rightmove reports that buyer demand for each available property is down 8% compared to the previous month, although it is still 6% higher than the same time one year ago. What's more, the number of new properties coming to the market is up 7% compared with last year, suggesting that the supply-demand imbalance may be showing the first signs of a slight easing.
- Latest data from the RICS residential market survey shows a further softening in new buyer demand with the enquiries balance falling to -27%, down from (revised) -9% previously. The survey further notes that in London new buyer enquiries balance is +7%, higher than most other parts of the UK. The volume of sales agreed over the month also declined, while near-term sales expectations also fell with a net balance of -9%. On the supply side both new instructions and market appraisals showed a broadly flat net balance, suggesting that supply is unlikely to change 'in the immediate future'.
- Tenant demand continues to increase across the lettings market, according to the latest RICS residential survey. +36% of contributors reported an increase in demand over the month, while yet again landlord instructions fell (to -11%), the third month in a row this measure has fallen.
- According to Rightmove's latest quarterly rental index (Q2 2022) the supply demand imbalance remains, with available rental stock down 26% compared to last year, while demand is up 6%. However, their report goes on to say that despite economic headwinds and some discouraging challenges posed for landlords and investors in the latest Rental Reform White Paper (read our response to that [here](#)), more landlords are still planning to expand their portfolios (34%) than reduce it (11%).
- A similar story was noted in ARLA PropertyMark's latest rental index (May 2022): an average of 113 new applicants registered per branch during the month, up from 95 last month. The supply of available properties on the other hand remained stable according to their data, with an average of ten properties per branch, up from nine the previous month.

HM Treasury Forecasts for the UK Economy, July 2022

HM Treasury Consensus Forecasts (2022 & 2023: July 2022, 2024-2026: May 2022)

	2022	2023	2024	2025	2026
Official Bank Rate (%)	2.02	2.48	2.19	2.11	2.30
House Price Growth (annual, %)	6.6	0.6	0.4	1.4	2.5
CPI inflation rate (annual average, %)	9.6	4.7	2.5	2.6	2.5
Unemployment rate (%)	3.8	4.1	3.9	3.8	3.8
GDP (annual, %)	3.6	0.6	1.8	1.8	2.0
Average earnings growth (annual, %)	5.8	3.9	3.5	3.3	3.4

Select Market Indicators, latest versus previous data

Sources: ONS (unless otherwise indicated) (final six indicators retrieved 22 July)

	Current	Previous	Direction of change
GDP monthly (month-on-month)	+0.5%	-0.2%	↑
Retail sales volume (monthly % change)	-0.1%	-0.8%	↑
GfK Consumer Confidence Index	-41	-41	↔
S&P Global / CIPS Manufacturing PMI	52.8	54.6	↓
S&P Global / CIPS Construction PMI	52.6	56.4	↓
S&P Global / CIPS Services PMI	54.3	53.4	↑
Inflation rate (CPI)	9.4%	9.1%	↑
Interest rate	1.25%	1.25%	↔
Employment rate	75.9%	75.6%	↑
Unemployment rate	3.8%	3.8%	↔
Weekly earnings growth, regular pay (excl bonuses)	4.3%	4.2%	↑
Nationwide annual house price inflation	10.7%	11.2%	↓
Halifax annual house price inflation	13.0%	10.2%	↑
Official UK House Price inflation (annual)	12.8%	11.9%	↑
Rightmove asking price inflation (annual)	9.7%	10.2%	↓
HomeLet Rental Index (annual growth, UK)	10.5%	10.6%	↔
Rightmove Rental Index (annual growth, UK)	11.8%	10.8%	↑
£ Sterling: \$ USD	\$1.19	\$1.22	↓
£ Sterling: € Euro	€1.17	€1.16	↑
BRENT CRUDE OIL (USD)	\$104.25	\$109.88	↓
GOLD (USD)	\$1,718.49	\$1,828.05	↓
FTSE 100	7,277.62	7,077.61	↑
UK 5 YEAR GILT YIELD	1.7325	1.9350	↓

Official House Price data, HM Land Registry, May 2022

Sources: HM Land Registry

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
Cornwall	£312,083	1.9%	17.3%
West Oxfordshire	£394,114	1.4%	16.7%
Vale of White Horse	£434,056	2.1%	16.0%
North Northamptonshire	£265,066	2.0%	15.7%
Dorset	£357,183	0.8%	14.9%
Devon	£328,602	1.3%	14.8%
Bath and North East Somerset	£423,738	-0.5%	13.8%
West Northamptonshire	£292,348	1.2%	13.7%
Somerset	£296,343	0.6%	13.6%
Suffolk	£293,238	0.5%	12.6%
Wiltshire	£330,295	-0.2%	12.3%
Winchester	£490,955	1.8%	11.6%
Cambridgeshire	£346,456	-0.6%	11.6%
South Cambridgeshire	£444,987	0.1%	10.8%
York	£315,092	3.1%	10.4%
West Berkshire	£394,538	-0.7%	10.0%
Leeds	£229,139	0.3%	9.7%
Harrogate	£326,123	-2.0%	7.4%
South Oxfordshire	£489,780	-0.2%	7.3%
Cambridge	£479,909	-3.2%	6.2%
Oxford	£465,505	1.1%	4.8%

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
South West	£323,418	1.0%	16.9%
East Midlands	£244,060	1.9%	15.2%
East of England	£353,574	2.6%	14.8%
Wales	£212,414	0.9%	14.4%
West Midlands region	£247,162	2.2%	14.0%
South East	£388,531	1.4%	13.5%
England	£302,278	1.3%	13.1%
United Kingdom	£283,496	1.2%	12.8%
Yorkshire and The Humber	£204,835	2.1%	12.6%
North West	£205,783	-0.2%	11.5%
North East	£153,592	-0.1%	9.7%
London	£526,183	0.2%	8.2%

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£526,183	0.2%	8.2%
Prime Central London	£1,098,949	-8.3%	3.1%
South West London	£720,480	0.1%	7.0%

Official House Price data, HM Land Registry, May 2022

Sources: HM Land Registry

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Islington	£742,294	3.6%	12.2%
Barking and Dagenham	£344,899	1.4%	11.4%
Barnet	£599,326	0.9%	11.4%
Bexley	£396,992	1.1%	10.6%
Havering	£422,527	0.2%	9.4%
Ealing	£542,223	1.6%	9.1%
Richmond upon Thames	£754,011	-2.6%	8.8%
Wandsworth	£641,589	-0.4%	8.5%
Sutton	£427,275	0.7%	8.4%
Enfield	£451,073	0.8%	8.3%
Bromley	£498,721	1.2%	8.3%
London	£526,183	0.2%	8.2%
Hillingdon	£455,347	0.5%	7.3%
Kensington And Chelsea	£1,316,522	-8.0%	7.2%
Newham	£409,413	2.1%	6.9%
Kingston upon Thames	£538,863	3.2%	6.8%
Croydon	£419,335	0.3%	6.5%
Redbridge	£472,102	-1.4%	6.3%
Brent	£538,732	0.5%	6.2%
Merton	£567,387	0.5%	6.0%
Haringey	£587,620	0.5%	5.4%
Hounslow	£446,033	3.6%	5.3%
Southwark	£538,599	1.5%	5.1%
Harrow	£510,458	1.5%	4.9%
Greenwich	£419,437	-0.5%	4.7%
Camden	£859,332	-0.6%	4.6%
Waltham Forest	£497,887	2.9%	4.6%
Tower Hamlets	£475,397	-0.7%	4.3%
Lewisham	£452,678	0.6%	4.2%
Hammersmith and Fulham	£765,841	3.2%	3.7%
Hackney	£576,072	-3.9%	1.1%
Lambeth	£535,870	-1.3%	-0.5%
City of Westminster	£881,375	-8.8%	-1.1%
Outer London	£482,008	0.7%	7.7%
Inner London	£608,801	-0.8%	4.7%

HomeLet Rental Index, June 2022

Source: HomeLet Rental Index

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
Greater London	£1,846	0.8%	14.9%
South West	£1,053	0.2%	11.1%
UK	£1,113	0.9%	10.5%
North West	£883	0.5%	10.5%
Scotland	£812	3.3%	10.0%
West Midlands	£826	0.9%	9.5%
East Midlands	£770	1.2%	9.4%
UK (excluding London)	£936	0.9%	8.7%
Yorkshire & Humberside	£761	0.5%	8.6%
Northern Ireland	£754	2.9%	7.9%
South East	£1,190	0.8%	7.7%
North East	£588	-0.3%	7.5%
Wales	£752	1.6%	7.1%
East Of England	£1,071	0.8%	6.6%

ABOUT CARTER JONAS

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