

# Residential Briefing Note

June 2022

## Market Overview

*It has been another busy, albeit slightly discouraging month for UK economic data: interest rates rose again, increasing 25 basis points to 1.25% as the Bank of England tries to tame rising inflation which hit 9.1% in May. Monthly GDP figures indicated another decline in April, dipping 0.3% after a fall of 0.1% in March, which is not surprising given the headwinds of rising inflation and borrowing costs, as well as ongoing supply chain issues. The labour market though continues to show strong figures with unemployment still sitting below 4% and job vacancies over 1.3 million but with near-record-high inflation, real wage growth is negative and falling.*

*House price growth meanwhile continues in the double-digits according to both Nationwide and Halifax latest indices, although in both cases this was down from the previous month's figure. Meanwhile the latest data from Bank of England Money and Credit noted that mortgage approvals fell again in April, a forward indicator that future house borrowing and buying may finally be slowing. In the lettings market, a squeeze on consumers' affordability may be turning potential buyers to the rental market, helping to drive the recent rise in rental demand. With a huge decline in available properties, this imbalance is driving rental costs upwards.*

## Executive Summary

- GDP fell again in April, down 0.3% following the 0.1% decline in March. A decline was noted in all three main sectors of manufacturing, services and production.
- April's hefty retail sales volume rise of 1.4% has been revised to a more subdued +0.4% and now May's decline of 0.5% may be the first indication of consumers tightening their belts amid rapidly rising prices.
- Consumer confidence has again dipped to a record low of -41 according to GfK's latest index, although this is only 1 point below May's figure. Four of the sub-measures declined while one remained flat.
- All three Purchasing Managers Indices (PMI) declined on a monthly basis, and although they all remain in expansion territory (above '50'), respondents in all categories noted that cost inflation, the economy and global geopolitical issues are weighing significantly on further growth.
- Inflation continued its march upwards although at 9.1% in the 12 months to May this was only a slight increase from 9.0% in April. This again marks a 40-year high and is expected to continue to rise in the months ahead.
- Latest figures from the Labour Force Survey found that unemployment edged up slightly from last month's record-low, moving to 3.8%. The number of vacancies though is still at record levels, reaching 1.3 million this month, although the pace of growth has slowed now for the 10th month in a row.
- Real wages continue to decline as inflation eats away at the average 4.2% annual growth (regular pay, excluding bonuses). This translates to a 2.2% fall when inflation is taken into account.
- House price growth is still in double digits according to all the regular monthly indices. Upward pressure on pricing is being supported mainly by the lack of available supply.
- Demand in the housing market is showing signs of slowing with Bank of England mortgage figures now declining for the third consecutive month, and at the lowest level since June 2020.

## UK economic backdrop

- Monthly GDP fell by a disappointing 0.3% in April, after a decline of 0.1% the month before. This is the first time that all three major sectors – manufacturing, services and production – have shrunk since January 2021. Services fell by 0.3% as the NHS Test and Trace activities were wound down, while construction declined by 0.4% following strong growth in March when there was significant uptake in repair and maintenance due to storm damage in February.
- Retail sales volumes fell by 0.5% in May, down from +0.4% in April (revised from +1.4%). The decline seems to mostly be attributed to a fall in food store spending as the impact of rapidly rising food prices slows consumer spending. Auto fuel sales volumes rose while an increase in clothing store sales (+2.2%) was almost entirely offset by a fall in the sale of household goods of furniture and in department stores (-2.3%).
- A new record low has been set in GfK's Consumer Confidence Index which fell to -41 in June. Of the five sub-indices four decreased including the Personal Financial Situation (next 12 months) which declined by 3 points to -65. The Major Purchase Index was the only measure to remain flat at -35. The GfK report notes that the index is now lower than during the Covid pandemic, the immediate aftermath of the Brexit referendum and even lower than during the 2008 financial crisis.
- Manufacturing activity has slowed to its lowest growth rate since January 2021, according to the latest S&P Global / CIPS manufacturing PMI. May's latest reading of 54.6 is another decline from April's 55.8 reading. Slowing domestic demand and lower export orders together with the continued supply chain disruptions and increasing cost pressures the sector is coming under mounting downward pressure. Compared with April's near-record high of input cost inflation though, May's input inflation figure eased slightly.
- The latest UK Services PMI has also fallen to its lowest level since February 2021, with a reading of 51.8 marking a strong fall from April's 58.9 figure. Survey respondents noted that economic and geopolitical issues contributed to the slowdown amongst worried clients. On a slightly positive note, those in the leisure, travel and events industries noted that post-pandemic demand is leading to strong recovery in these sectors.
- Meanwhile the May PMI figure for the construction index showed another decline, down to 56.4 from April's 58.2 and marking a four-month low. Nevertheless, this is still the 16th consecutive month of expansion in the sector. A slowdown in the residential

build category marked the largest deceleration, with housing activity now at its weakest level in two years. The industry noted robust demand in the commercial sector albeit with clients showing some hesitancy about the wider economy. New work orders and job growth expanded overall though.

- The UK inflation rate moved up slightly to 9.1% in the 12 months to May, from last month's 9.0% figure, again marking the highest rate of inflation in over 40 years. The largest upward contributor came from rising electricity, gas and other fuel costs with the rapidly increasing price of motor fuel and secondhand cars also contributing. Prices for food and non-alcoholic beverages also saw increases, principally because this time last year those goods had seen price falls. Small downward contributions were noted in recreation, culture, clothing and footwear.
- For the fifth time in a row, the Bank of England's Monetary Policy Committee raised interest rates, up 25 basis points to 1.25%. This is now the highest rate in 13 years. Three of the nine committee members voted to raise by 50 basis points so it is likely we can expect further increases this year. Indeed, the Committee minutes noted that they would 'act forcefully' going forward, to help beat back inflationary pressures.
- The UK employment rate decreased very slightly in the three months to April, to 75.6% from 75.7% the previous month, still lower than pre-pandemic. The unemployment figure meanwhile increased to 3.8% over the period, again up slightly from last month's 50-year low.
- The number of job vacancies rose yet again to 1.30 million, although the pace of growth in vacancies continues to slow, falling for the 10th consecutive period to 1.6%. This month 7 of the 18 industry sectors noted record high vacancy ratios, down from last month's 11 of 18. Total vacancies currently reflect an increase of 503,000 since before the pandemic.
- Despite the high number of job vacancies, wage growth remained unchanged at 4.2% per annum (regular pay, excluding bonuses) in the three months to April. Given the high rate of inflation over the same period this means that real wages are falling at their fastest rate in over ten years, down 2.2% from a year earlier.

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

## Residential property market

### Sales Prices and Rents

- UK house prices rose by an average of 11.2% (annually) in May, according to Nationwide. This is the 13th consecutive month of double-digit annual price growth, and the tenth month where prices have grown on a monthly basis. May's monthly increase of 0.9% is up over April's figure of 0.4% but at 11.2% annually, this is the second month of a declining pace of growth.
- Halifax's index also showed the pace of house price growth slowing in May, but at 10.5% (annual) this is only a small slowdown from April's figure of 10.8%. On a monthly basis the cost of buying a house rose by 1% in May, adding an additional circa £2,900 to the average purchase price. The report goes on to find that overall, nine regions of the UK posted double-digit annual growth with just Yorkshire and the Humber, Scotland and London in single figures.
- HM Land Registry figures for April indicate that prices were still rising rapidly with a UK average of 12.4%, up from 9.7% in March. On a monthly basis prices were found to have grown by 1.1% to reach an average house price of £281,161. With a nearly two-month lag in data processing from the official index we expect that the coming months will indicate a slowing pace of price growth, as has been seen in the other national indices.
- Once again, prices were found to have grown the fastest in Wales, at 16.3% over the last 12 months. This was followed by the South West at 14.1% and the North West at 13.3%. Yet again, London saw the slowest pace of growth, however at 7.9% annually this is the capital's strongest growth rate in nearly six years.
- Across the Carter Jonas office location areas, 17 of our tracked 21 locations showed double-digit price growth. Bath and North East Somerset clocked the highest growth at 16.1% followed by South Cambridgeshire at 15.7%, West Oxfordshire (15.2%), Wiltshire (14.4%) and Cornwall (14.2%).
- In London, the outer suburban boroughs again performed better than inner London at 7.4% and 5.6% growth, respectively. This month Kensington and Chelsea topped the growth table at 26.7% annual increase, although this must be treated with caution as just a few large, luxury house price sales will skew this data enormously. Richmond recorded 16.1% growth followed by Barnet (11.6%) and Brent (10.8%).
- The restricted supply of available homes for sale is firmly placing upward pressure on prices with a balance of +73% of contributors noting an increase in May. Growth was found to be exceptionally strong in Northern Ireland, Northern England and Wales. In the 12-month price horizon a net balance figure of +42% expect prices to be higher but this is down from +78% in February and is the most moderate figure since January 2021.
- According to Rightmove's latest house price index, asking prices rose by an average of 10.2% (annually) in May, a slight increase over April's figure of 9.9% and reflecting a hefty monthly rise of 2.1%. The report goes on to say that asking prices rose by an average of £55,000 over the last two years, compared with a £6,000 rise in the two years before the pandemic.
- Average rents rose yet again, increasing by an average of 10.6% in May (annually), and surpassing double-digits for the first time in at least the last eight years. London witnessed the highest growth rate with an increase of 15.7% leading to an average rent rate in the capital of £1,832 pcm. The North West, South West and Scotland have also seen double-digit rent rises this month, while the slowest pace of growth was recorded in the North East, at 5.4%.
- Near-term rental growth expectations remain high with a net balance of +58% of contributors expecting growth in rents over the short term, although this is down slightly from +63% last month, according to RICS's survey. The report goes on to note that the five-year rental growth rate of 5% per annum now outpaces the 4% annual house price growth that is expected over the same period.







## Activity

- The number of approved mortgages fell for the third month in a row to 65,970 in April, the lowest number since June 2020, according to the Bank of England's latest figures. This probably marks the start of a slower growth period in the housing market, as consumers feel the pinch from higher interest rates, rising energy costs and the increasing cost of living more widely.
- Property transactions also declined in April, to 106,780, a decrease of 4% over the previous month and 12% below the same month one year ago. This latest data from HMRC shows that in the first four months of 2022 there have been just over 433,000 recorded transactions, down by 120,000 compared to the same months in 2021.
- Further indications that the market and house price growth specifically may begin to soften comes from Zoopla's latest house price report; the web portal found that the supply of new available properties is 7% above the five-year average for this time of year (four weeks to mid-May 2022). On the other hand, demand is still strong, averaging 61% above the long-term 5-year average.
- Rightmove also reported the stark imbalance in supply and demand in the housing market in their latest index report; they found that the number of buyers contacting agents is up 31% compared with the same month in 2019, while available properties is down 55%.
- RICS' latest residential market survey finds that the net balance for new buyer enquiries fell to -7% in May, down from +8% last month and marking the first time in eight months that this figure has turned negative. The survey also noted that the agreed sales reading was -2%, while sales expectations eased to +1% from +10% just one month ago. The longer-term outlook for sales fell more dramatically, moving from -4% in April to -24% this month, marking the lowest figure since October 2020. Finally, new sales instructions were also flat, while market appraisals returned a figure of -5% indicating that there does not appear to be a new flow of supply coming to the market anytime soon.
- In the lettings market, the RICS survey reports that the tenant demand net balance was +48%, while landlord instructions continue to decline with a reading of -13%.
- Arla Propertymark's latest report on the private rented sector also finds that demand for rental properties remains high, with an average of 95 new applicants registered per branch in April (latest), a strong rise from 78 in February. The number of new homes available to rent (that are currently empty) remains low with an average of just nine per branch, although this is a significant increase from February's low of five.

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

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

	2022	2023	2024	2025	2026
Official Bank Rate (%)	1.74	2.05	2.19	2.11	2.30
House Price Growth (annual, %)	7.0	0.7	0.4	1.4	2.5
CPI inflation rate (annual average, %)	9.2	3.1	2.5	2.6	2.5
Unemployment rate (%)	3.9	4.1	3.9	3.8	3.8
GDP (annual, %)	3.6	0.9	1.8	1.8	2.0
Average earnings growth (annual, %)	5.4	3.7	3.5	3.3	3.4

## Select Market Indicators, latest versus previous data

Sources: ONS (unless otherwise indicated) (final six indicators retrieved 24 June)

	Current	Previous	Direction of change
GDP monthly (month-on-month)	-0.3%	-0.1%	↓
Retail sales volume (monthly % change)	-0.5%	0.4%	↓
GfK Consumer Confidence Index	-41	-40	↓
S&P Global / CIPS Manufacturing PMI	54.6	55.8	↓
S&P Global / CIPS Construction PMI	56.4	58.2	↓
S&P Global / CIPS Services PMI	51.8	58.9	↓
Inflation rate (CPI)	9.1%	9.0%	↑
Interest rate	1.25%	1.0%	↑
Employment rate	75.6%	75.7%	↓
Unemployment rate	3.8%	3.7%	↑
Weekly earnings growth, regular pay (excl bonuses)	4.2%	4.2%	↔
Nationwide annual house price inflation	11.2%	12.1%	↓
Halifax annual house price inflation	10.2%	10.8%	↓
Official UK House Price inflation (annual)	12.4%	9.7%	↑
Rightmove asking price inflation (annual)	10.2%	9.9%	↑
HomeLet Rental Index (annual growth, UK)	10.6%	9.5%	↑
£ Sterling: \$ USD	\$1.22	\$1.25	↓
£ Sterling: € Euro	€1.16	€1.18	↓
Brent Crude Oil (USD)	\$109.88	\$111.95	↓
GOLD (USD)	\$1,828.05	\$1,844.35	↓
FTSE 100	7,077.61	7,417.76	↓
UK 5 Year Gilt Yield	1.9350	1.6095	↑

## Official House Price data, HM Land Registry, April 2022

Sources: HM Land Registry

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
Bath and North East Somerset	£436,359	2.8%	16.1%
South Cambridgeshire	£456,952	2.7%	15.7%
West Oxfordshire	£395,348	2.0%	15.2%
Wiltshire	£334,244	2.5%	14.4%
Cornwall	£304,630	1.5%	14.2%
Cambridgeshire	£351,161	1.3%	13.6%
Devon	£325,989	1.0%	13.6%
North Northamptonshire	£259,970	0.9%	13.6%
West Berkshire	£405,684	3.3%	13.4%
Vale of White Horse	£418,299	0.7%	13.2%
West Northamptonshire	£290,141	1.6%	13.0%
Somerset	£294,289	1.2%	13.0%
Dorset	£351,076	1.6%	12.9%
Suffolk	£295,418	1.2%	12.6%
Harrogate	£338,308	2.7%	12.6%
Cambridge	£508,914	4.4%	12.2%
Leeds	£231,692	1.7%	11.4%
South Oxfordshire	£496,346	2.8%	9.2%
Winchester	£474,310	-4.0%	8.7%
York	£302,263	0.9%	7.9%
Oxford	£459,055	-1.1%	4.8%

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
Wales	£211,990	2.2%	16.2%
South West	£318,610	1.9%	14.1%
North West	£208,867	2.0%	13.3%
East Midlands	£237,904	-0.5%	12.4%
<b>United Kingdom</b>	<b>£281,161</b>	<b>1.1%</b>	<b>12.4%</b>
Yorkshire and The Humber	£201,806	1.6%	12.1%
South East	£382,791	-0.3%	11.9%
East of England	£344,943	0.4%	11.9%
<b>England</b>	<b>£299,249</b>	<b>0.8%</b>	<b>11.9%</b>
West Midlands region	£242,145	0.5%	11.8%
North East	£155,215	0.1%	10.7%
London	£529,829	1.0%	7.9%

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£529,829	1.0%	7.9%
Prime Central London	£1,245,633	3.9%	15.9%
South West London	£718,285	0.4%	7.3%

## Official House Price data, HM Land Registry, April 2022

Sources: HM Land Registry

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Kensington And Chelsea	£1,513,711	6.8%	26.7%
Richmond upon Thames	£792,538	3.2%	16.1%
Barnet	£596,898	3.5%	11.6%
Brent	£546,934	2.8%	10.8%
Havering	£425,898	3.5%	10.6%
Bexley	£392,155	-0.3%	9.2%
Bromley	£495,550	1.5%	8.7%
Wandsworth	£641,132	1.1%	8.4%
Barking and Dagenham	£336,126	-2.9%	8.3%
Camden	£874,081	1.6%	7.9%
<b>London</b>	<b>£529,829</b>	<b>1.0%</b>	<b>7.9%</b>
Haringey	£601,439	1.7%	7.8%
Hillingdon	£459,565	1.4%	7.8%
Redbridge	£480,318	0.6%	7.7%
Sutton	£424,726	-0.4%	7.6%
Greenwich	£434,433	0.8%	7.4%
Enfield	£449,967	3.3%	7.0%
Islington	£712,968	0.1%	6.8%
Tower Hamlets	£499,716	4.4%	6.4%
Croydon	£417,947	1.3%	6.1%
Merton	£566,919	2.0%	5.7%
Ealing	£525,438	-1.4%	5.4%
Hackney	£607,030	-2.6%	5.2%
Kingston upon Thames	£528,433	-0.4%	5.0%
City of Westminster	£977,554	-0.4%	5.0%
Newham	£407,474	-0.8%	4.3%
Lambeth	£545,756	1.5%	2.9%
Southwark	£527,636	0.5%	2.6%
Harrow	£497,236	-3.2%	1.6%
Lewisham	£446,546	-2.6%	0.5%
Waltham Forest	£478,261	-2.7%	-0.3%
Hounslow	£428,483	0.4%	-0.4%
Hammersmith and Fulham	£721,185	-3.2%	-2.5%
Outer London	£480,501	0.9%	7.4%
Inner London	£618,426	0.6%	5.6%

## HomeLet Rental Index, May 2022

Source: HomeLet Rental Index

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
Greater London	£1,832	1.6%	14.6%
South West	£1,051	1.5%	11.5%
North West	£879	0.1%	11.3%
Scotland	£786	1.6%	11.2%
<b>UK</b>	<b>£1,103</b>	<b>1.1%</b>	<b>10.6%</b>
<b>UK (excluding London)</b>	<b>£928</b>	<b>0.9%</b>	<b>8.7%</b>
Yorkshire & Humberside	£757	1.1%	8.6%
West Midlands	£819	0.7%	8.5%
Northern Ireland	£733	1.7%	8.1%
East Midlands	£761	0.8%	8.1%
South East	£1,181	1.5%	7.9%
East Of England	£1,062	0.7%	6.1%
Wales	£740	0.8%	6.0%
North East	£590	-0.7%	5.4%

### 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.

### Residential Research

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