

Residential Briefing Note

March 2022

Market Overview

Following its invasion of Ukraine, sanctions against Russia have been ramped up, all but placing it behind a new iron curtain. The humanitarian crisis is clearly huge, and there is also a significant global economic fallout, which will play out in terms of lower growth and higher commodity prices. There is little doubt that the impact of higher oil and gas prices in particular will be strongly felt by UK consumers this year. Although the UK is not heavily reliant on Russian oil and gas imports, it is still subject to global market prices which have risen significantly.

Amidst all of this the residential market continues its strong run of activity and price growth. Prices are up, as are transaction levels, whilst in the lettings market demand continues unabated with availability of properties still scarce. The strength of current house price figures is surprising given that consumer confidence has fallen, interest rates have risen, and household incomes are being squeezed. With many of us facing further energy price increases in April, and National Insurance contributions set to rise for some, it may be that demand in the housing market begins to slow around this time.

Executive Summary

- *Economic output is now above its pre-COVID level as GDP grew by 0.8% in January. This was a punchy figure and is likely to slow over the coming months.*
- *Retail sales volumes fell by 0.3% in February, partly linked to the stormy weather and a return of consumers to pubs and restaurants.*
- *Consumer confidence though has also taken a turn for the worse, falling five points in March and now the fourth month in a row of declining figures. Consumers are becoming increasingly worried about the rising cost of living currently, and what may be to come.*
- *Both construction and the services sector Purchasing Managers Index (PMI) rose sharply in February as activity in both sectors grew. Manufacturing remained unchanged and all three sectors continue to cite rising input costs.*
- *Inflation reached another 30-year high in February, increasing to 6.2% annually. Food and energy prices continue to climb, again providing the largest upward contribution to price rises this month.*
- *Employment rose and unemployment fell over the three months to January 2022, indicating a further strengthening of the labour market. Payrolled employees also increased but job vacancies remain a problem as this figure rose to another fresh record high this month.*
- *Yet again, house price growth accelerated in February according to both Nationwide and Halifax where annual growth of 12.6% and 10.8% were recorded, both higher than January's figure.*
- *Rental growth also continued to climb, with HomeLet recording average UK rental growth of 8.6%. Rents in Scotland (12.1%), London (11.8%) and the North West (10%) were found to have risen the most over the last 12 months.*
- *The professional bodies of both ARLA and the RICS again recorded a wide disparity between tenant demand and new tenant registrations versus available rental properties and new landlord instructions.*

UK economic backdrop

- For the first time since the COVID pandemic hit GDP is finally above its pre-COVID peak, by 0.8% as monthly GDP grew by 0.8% in January. The modest GDP decline in December due to the Omicron variant and 'Plan B' restrictions was clearly short-lived as all sectors bounced back in January: with services up 0.8%, production up 0.7% and construction by 1.1%. Despite this strong GDP rise in January, we expect growth to slow over the coming months as real disposable incomes drops.
- Retail sales declined by 0.3% in February, according to the latest data, following the hefty 1.9% rise in January. The fall was unexpected and may have been partly due to stormy weather which hit the country a few times in the month. Nevertheless, online sales volumes also decreased by nearly 5%, although this is off the back of very strong growth during November and December. Large falls in the sale of alcohol and tobacco is thought to be in part due to higher spending in pubs and restaurants, as consumers returned to going out.
- The March GfK Consumer Confidence Index slipped a further five points in March, down to -31 from -26 in February. This is the lowest figure in over 12 months and is the fourth consecutive month of slipping confidence. All five sub-indices were down over the previous month as the Major Purchase Index slipped the most, falling 9 points to -24. Worries over price rises from food, fuel, energy, and utilities as well as increasing interest rates appear to be shaking consumer confidence.
- UK Manufacturing PMI in February indicates a four-month low of 57.3, although unchanged over January's figure. Production growth in February was cited as being hampered by staff absences due to COVID isolation as well as an overall lack of candidates available to fill vacancies. New order growth has slowed recently while on the cost front prices continue to rise but the rate of input inflation does appear to be easing.
- UK Services sector PMI rose steeply in February to 60.5, up from 54.1 in January. This is the steepest rise in output since June last year. Rates of expansion in business activity and new orders rose sharply, as did new jobs. Input costs however also rose again, and these are now being passed on to consumers reflected in the highest rise in 'charge inflation' on record.
- Housing construction activity increased sharply during February which helped boost the overall IHS/CIPS Construction sector PMI to 59.1, up from 56.3 in January. Commercial activity however also increased, as did civil engineering as supply constraints eased slightly and business confidence grew. Delivery times have improved but overall supply constraints are still being cited as a barrier to further growth, as are rapidly rising input costs / inflation.
- CPI inflation increased to 6.2% in February, up from 5.5% in the previous month, to reach a more than 30-year high. Food price growth accelerated in February, to 5.1% while electricity, gas and other fuels also contributed the most to the large upward growth. We continue to expect inflation to rise yet further in March before reaching a peak in April of somewhere between 8% and 8.5% - this is the month when households will be hit with new energy prices which are set to increase by as much as 50%.
- The Bank of England's Monetary Policy Committee (MPC) raised interest rates again this month to 0.75%. This is now the third time in four months when rates have been raised and are at their highest rate since March 2020. The MPC meeting minutes read that "some further modest tightening of monetary policy may be appropriate in the coming months". Therefore, at their next meeting in May, we expect them to raise rates to 1.0% where they will probably remain for the short-term.
- There is a continuing recovery in the labour force as the employment rate increased in the three months to January 2022, while the unemployment rate decreased. At 75.6% this is 0.1 percentage points higher than the previous reading for employment while the unemployment rate dipped below 4% for the first time since the start of the pandemic, to 3.9%.
- The number of payrolled employees also rose, up 275,000 in February 2022 to a record 29.7 million. This figure is well above the consensus growth rate of 125,000 in the month. Job vacancies continues to rise as well, again hitting a fresh record at 1.318 million and reflecting a growth of 105,000 new listings over the previous quarterly figure.
- Wage growth rose slightly to 3.8% (regular pay, excluding bonuses) over the three months to January. Adjusted for inflation however, this means regular pay has fallen by 1.0%. Some of the high rate of wage inflation over the last 12 months had been due to an exceptionally high level of job-to-job moves over the period. However, with consumer confidence low and falling, this is expected to slow, and wage growth will likely fall back a bit as well.

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

Residential property market

Sales Prices and Rents

- February's house prices increased yet again, according to Nationwide. Monthly prices were up 1.7% and on an annual basis the bank records a 12.6% rise and means the average UK house price has now exceeded £260,000 for the first time. The monthly report goes on to say that house prices have risen by an average of £29,000 since February 2021 and are 20% higher than February 2020.
- Halifax also recorded rising house price growth in February as average UK house inflation increased by 10.8% annually, up from 9.7% in January. This marks the highest growth rate since June 2007, according to their records, and follows a monthly increase of 0.5%. The average house price has now reached £278,123. According to Halifax data, the average UK house price has increased by £38,709 since February 2020.
- January's data from the official house price index (latest figures) provided by ONS / HM Land Registry report annual house price inflation of 9.6%, down from December's annual (revised) figure of 10.0%. On a monthly basis prices were found to have grown by 0.4% to an average price of £273,762 across the UK.
- Across the countries and regions, it is Wales that yet again tops the table for strongest price growth at 13.9%. Wales has consistently been in the top three for growth over much of the last 12 months. Since the start of the pandemic in February 2020, the average house in Wales has increased in value by 25%, equating to an additional £40,297 on the average house value.
- At the bottom of the house price inflation table is London, which has regularly been at the bottom of price growth over the last 12 months. By way of comparison, the average London house price has increased by 8% since the start of the pandemic, although this has still added approximately £35,622 to the value of the average London house.
- Of our Carter Jonas office location areas, the South West counties are again dominating the strong house price growth. Devon (16.2%), Cornwall (15.8%) and Somerset (14.6%) are in the top five, which is rounded out by North Northamptonshire (14.9%) and South Cambridgeshire (13.5%) in the east.
- The February RICS residential market survey reports a house price growth headline balance of +79%, up from last month's reading of +74% indicating continued strong price growth this month, mirrored in the

latest price indices mentioned earlier. Going forward participants also felt that prices would continue to rise both over the short (3 months) and longer term (12 months) horizons. This is particularly interesting as these price expectations have actually grown even since the interest rate hikes have been announced.

- There has been another record set in asking prices this month as the price of property coming to the market averaged £354,564 according to Rightmove's (March) latest house price index report. This is the first time that the average price has pushed past £350,000 and reflects an annual increase of 10.4%, up from 9.5% last month. Four + bed houses saw the sharpest growth with average prices rising 3.8% in just one month.
- HomeLet's latest report on the private rented sector finds that average UK rents have risen 8.6% over the last year, to £1,069 per calendar month, and reflecting a monthly rise of 0.5%. Double digit growth has been recorded in Scotland (12.1%), Greater London (11.8%), and the North West (10.0%). This is also the fourth consecutive month of double-digit annual rental growth across London although on a monthly basis rents are said to have declined by 0.2% in February.
- Near term rental growth expectations were driving higher in February, according to the RICS market survey, with a net balance of +66%. This is the highest figure since the series began in 2012. Over the next 12 months respondents project a 4.5% rental growth figure, increasing to 5% per annum over the next five years which is again close to an all-time high for this series.

Activity

- Mortgage approvals ticked up in January, according to the latest data from Bank of England. Total approvals for the month were just shy of 74,000, an increase of 4% over December 2021. While this figure is down significantly from the same time last year (96,000 approvals were recorded in January 2021) it is nearly 10% above the five-year average for January, indicating that demand was still strong heading into the start of the year.
- Property transactions have continued to grow throughout the start of 2022, according to data from HMRC. For the fourth consecutive month the number of monthly sales has grown, to reach 112,240 in February, up from 107,490 the month prior. Although this is down quite significantly from the same time last year (-21%), it is still 22% more than the ten-year average for February.

- Latest data from Zoopla's house price index shows that overall supply of new homes available to purchase (listed) is up in every region, against the same time last year. Compared with the longer term, available supply is now up in five regions. Across Scotland, the East Midlands, the North East, Yorkshire and the Humber new listings over the last two months is above those over the same period in 2017-2020. This suggests that the supply and demand imbalance that has been experienced over much of the last 18 months may be on the way to closing in across some of those locations.
- Rightmove's latest house price index report for March finds there are currently twice as many buyers in the market as there are available properties. This is therefore the largest disparity between supply and demand that Rightmove has ever recorded for this time of year. They go on to report that the speed of the market is still very intense with 22% of deals on homes being agreed within the first week of being marketed on the site.
- RICS' February survey found that a balance of +17% of respondents noted rising new buyer enquiries during the month, the sixth month in a row when buyer enquiries have grown. The agreed sales measure also improved to +9%, the highest reading since May 2021. Over the short term, sales expectations are still positive at +11% although this is down from +20% in January. Stock levels continue to be 'close to historic lows', noting that although the net balance of new instructions moved 'up' to -4%, there has been only one positive listing of this in the last 12 months.
- ARLA's latest report on the private rented sector (January) confirms the huge disparity across the lettings industry between supply and demand; the publication finds that during January there was an average of 118 new tenant applicants per branch, compared with an average of just six new properties entering the market, per member branch.
- Tenant demand in the rental market continued to increase this month, according to the February RICS market survey. A net balance of +55% of respondents cited an increase in demand, while landlord instructions fell yet again, with a net balance of -21%, down from -13% last month.



HM Treasury Forecasts for the UK Economy, March 2022

Sources: HM Treasury Consensus Forecasts (2022 & 2023, March 2022, 2024-2026, February 2022)

	2022	2023	2024	2025	2026
Official Bank Rate (%)	1.16	1.52	1.39	1.49	1.53
House Price Growth (annual, %)	3.6	1.5	1.9	2.4	2.7
CPI inflation rate (annual average, %)	6.4	2.4	2.0	2.0	2.0
Unemployment rate (%)	4.1	4.0	3.9	3.9	3.9
GDP (annual, %)	4.1	1.6	1.6	1.6	1.6
Average earnings growth (annual, %)	4.9	3.7	3.1	3.2	3.3

Select Market Indicators, latest versus previous data

Sources: ONS (unless otherwise indicated) (final six indicators retrieved 23 March)

	Current	Previous	Direction of change
GDP monthly (month-on-month)	0.8%	-0.2%	↑
Retail sales volume (monthly % change)	-0.3%	1.9%	↓
GfK Consumer Confidence Index	-31	-26	↓
IHS Markit / CIPS Manufacturing PMI	57.3	57.3	↔
IHS Markit / CIPS Construction PMI	59.1	56.3	↑
IHS Markit / CIPS Services PMI	60.5	54.1	↑
Inflation rate (CPI)	6.2%	5.5%	↑
Interest rate	0.75%	0.50%	↑
Employment rate	75.6%	75.5%	↑
Unemployment rate	3.9%	4.1%	↓
Weekly earnings growth, regular pay (excl bonuses)	3.8%	3.7%	↑
Nationwide annual house price inflation	12.6%	11.2%	↑
Halifax annual house price inflation	10.8%	9.7%	↑
Official UK House Price inflation (annual)	9.6%	10.0%	↓
Rightmove House Price Index (asking prices, annual)	10.4%	9.5%	↑
HomeLet Rental Index (annual growth, UK)	8.6%	8.5%	↑
£ Sterling: \$ USD	\$1.33	\$1.36	↓
£ Sterling: € Euro	€1.20	€1.19	↑
Brent Crude (USD)	\$116.72	\$92.83	↑
Gold (USD)	\$1,923.26	\$1,893.90	↑
FTSE 100	7,516.07	7,503.09	↑
UK 5 YEAR GILT YIELD	1.4120	1.3370	↑

Official House Price data, HM Land Registry, Jan 2022

Sources: HM Land Registry

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
Devon	£323,529	0.2%	16.2%
Cornwall	£302,121	2.2%	15.8%
North Northamptonshire	£253,600	1.0%	14.9%
Somerset	£291,633	1.2%	14.6%
South Cambridgeshire	£440,157	1.2%	13.5%
Cambridgeshire	£342,212	1.6%	13.2%
Suffolk	£292,012	2.0%	13.1%
Bath and North East Somerset	£413,611	2.9%	12.6%
West Oxfordshire	£380,806	1.5%	11.9%
Winchester	£495,550	3.7%	11.8%
York	£303,200	-0.2%	11.4%
West Northamptonshire	£284,488	1.6%	10.5%
South Oxfordshire	£496,997	-0.4%	10.4%
Dorset	£340,998	-0.2%	10.1%
West Berkshire	£393,111	-1.0%	9.9%
Leeds	£224,943	2.9%	8.1%
Cambridge	£483,126	4.7%	7.7%
Harrogate	£318,737	-0.2%	7.3%
Wiltshire	£314,257	-0.8%	7.0%
Oxford	£460,629	3.2%	6.3%
Vale of White Horse	£395,226	0.1%	4.6%

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
Wales	£206,251	1.3%	13.9%
East Midlands	£235,503	1.8%	11.6%
East of England	£341,629	1.4%	11.5%
South East	£378,311	0.5%	11.1%
South West	£307,468	-1.1%	10.9%
West Midlands region	£235,809	-0.1%	10.3%
United Kingdom	£273,762	0.4%	9.6%
North West	£199,791	-0.3%	9.6%
England	£291,560	0.1%	9.4%
North East	£150,787	1.7%	8.3%
Yorkshire and The Humber	£194,525	-0.2%	7.3%
London	£510,102	-1.8%	2.2%

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£510,102	-1.8%	2.2%
Prime Central London	£1,209,561	0.3%	7.6%
South West London	£714,524	-1.8%	6.3%

Official House Price data, HM Land Registry, Jan 2022

Sources: HM Land Registry

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Islington	£760,282	0.4%	13.4%
Richmond upon Thames	£775,371	0.6%	12.4%
Barking and Dagenham	£345,873	4.1%	10.6%
City of Westminster	£1,015,307	3.4%	9.4%
Kingston upon Thames	£545,913	0.5%	9.1%
Hackney	£646,596	8.0%	8.9%
Bexley	£384,200	-1.2%	8.0%
Harrow	£511,465	0.4%	7.8%
Barnet	£580,791	0.2%	7.7%
Camden	£852,153	-10.1%	6.6%
Sutton	£419,628	0.8%	6.4%
Bromley	£484,981	-0.9%	6.2%
Hammersmith and Fulham	£761,818	-4.4%	6.2%
Croydon	£404,696	-0.8%	6.2%
Newham	£406,632	2.1%	5.8%
Kensington And Chelsea	£1,403,815	-1.8%	5.8%
Havering	£400,902	1.1%	5.4%
Redbridge	£469,411	-0.6%	4.8%
Ealing	£520,922	0.4%	4.4%
Greenwich	£420,970	-0.2%	3.2%
Hillingdon	£438,813	0.9%	2.7%
Enfield	£427,766	-1.3%	2.6%
London	£510,102	-1.8%	2.2%
Merton	£563,669	-1.0%	2.0%
Brent	£521,870	2.6%	1.5%
Waltham Forest	£479,429	1.4%	1.1%
Wandsworth	£606,382	-1.4%	0.1%
Lewisham	£442,278	-2.3%	-0.1%
Hounslow	£426,009	-1.1%	-0.7%
Haringey	£584,798	0.4%	-1.0%
Lambeth	£518,451	-2.9%	-4.1%
Southwark	£518,470	-3.9%	-4.8%
Tower Hamlets	£438,375	1.5%	-5.1%
Outer London	£470,537	0.1%	5.4%
Inner London	£604,940	-1.0%	1.8%

HomeLet Rental Index, February 2022

Source: HomeLet Rental Index

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
Scotland	£760	1.7%	12.1%
Greater London	£1,757	-0.2%	11.8%
North West	£860	0.6%	10.0%
South West	£999	1.0%	9.3%
UK	£1,069	0.5%	8.6%
Northern Ireland	£718	1.8%	8.5%
Wales	£727	0.0%	8.0%
North East	£583	0.9%	7.6%
UK (excluding London)	£902	0.6%	7.4%
Yorkshire & Humberside	£730	0.6%	7.4%
West Midlands	£800	1.0%	6.8%
East Of England	£1,037	0.2%	6.0%
East Midlands	£745	-0.1%	5.8%
South East	£1,139	1.0%	4.8%

ABOUT CARTER JONAS

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