

Residential Briefing Note

May 2022

Market Overview

Rising interest rates, higher energy prices, increasing costs of living and high levels of inflation are dominating the economic landscape across the UK. GDP growth has also stalled with recent data showing that output in March declined by 0.1%, following no growth in February. But the UK is not alone, as global supply chain disruptions, the war in Ukraine and energy costs more widely have been negatively weighing on global growth over the last few months.

Across the residential sales market, house prices continue to rise although the pace of growth appears to finally be slowing – we await to see if this is a longer-term trend although we expect that it will be. Private rents in the lettings market are also rising at robust rates, reaching double digits in many parts of the UK, and most prominently in London. As affordability factors and the cost of living more generally continue to increase over the coming months, we expect the pace of house price and rental growth to ease.

Executive Summary

- *The UK economy shrank by 0.1% in March compared with February, following no growth the month prior. On a quarterly basis though GDP rose by 0.8% in the three months to March.*
- *Retail sales volumes rose by an unexpected 1.4% during April. Food store sales were boosted by higher spending on alcohol and tobacco products.*
- *Consumer confidence has fallen yet again according to the latest data from GfK's Index. At -40 overall this is now the lowest figure the index has ever recorded in its 48 year history.*
- *While all three Purchasing Managers Indices (PMI) remained in strong expansion territory in April, both the construction and services figures declined over the previous month. Supply chain issues and rising input costs are weighing negatively on any further expansion.*
- *Inflation hit a 40-year high in April to reach 9.0%. A strong rise in energy prices in the month contributed significantly to this but increasing prices were seen in almost all goods, services and sectors.*
- *The UK unemployment rate fell to its lowest-ever recorded level at 3.7% in the three months to March. Real wages though are continuing to decline as wage growth reached 4.2%, while inflation rose to 7% over the same period.*
- *UK house prices continue to grow on an annual basis, with both Nationwide and Halifax reporting double-digit figures. Both banks note that the pace of growth is slowing for the first time in over six months.*
- *Rents in the private rented sector continue to climb, rising by an average of 9.5% annually, up from 8.7% the previous month. London's figure reached 14.2% as urban renters clamber over limited stock.*

UK economic backdrop

- GDP fell by 0.1% in March, following no change in February (revised down from +0.1%). The services sector declined by 0.2% on the month and this was the main contributing sector to the decline, mainly resulting from a large decrease in the wholesale and retail trade and repair of vehicles and motorcycles this month. On the other hand, the construction sector rose by 1.7% while the production sector also declined by 0.2%. On a more positive note, GDP rose by 0.8% in the three months to March, with the services sector being the main upward contributor. However, it is widely anticipated that with cost of living and inflation now swiftly rising, this will probably be the high point for GDP growth in 2022.
- Retail sales volumes increased in April, up 1.4% compared with the month prior when a (revised) fall of 1.2% was experienced, according to the latest ONS data. Some of the increase may be reflecting consumers opting to stay in rather than going out, perhaps to save money due to rising prices. Supermarket food store sales rose by nearly 3%, amid higher spending on alcohol and tobacco products. Drinks store sales also rose by 8.4% over the month with the food and drink sector accounting for the majority of the increase in sales during the month.
- GfK's Consumer Confidence Index fell by a further two points to -40 in May, the lowest score ever recorded since records began in 1974. The score is now one point lower than during the peak of the banking and financial crisis in 2008. Consumers appear most worried about the general economy over the previous year, this sub-measure fell to -63 while the forward-looking general economy measure fell to -56. The Major Purchase Index has now declined in each of the last six months to -35.
- The S&P Global / CIPS Manufacturing PMI moved up slightly in April, to 55.8 from March's 55.3 reading. Delivery delays were cited as having reduced from earlier in the year, while higher production rates were linked with new business intakes. Downward pressure has come from a subdued overseas market, the war in Ukraine and transportation issues including higher shipping costs and customs checks.
- The UK Services PMI remains in very strongly positive territory at 58.9 in April, but this is well below March's figure of 62.6 and there are signs that rising costs and the war in Ukraine will limit the pace of growth going forward. New business growth stalled sharply and is the weakest figure this year. Business confidence has also dropped to its weakest level in over 18 months, while input costs rose to their highest rate in the 26 years of this data.
- Last of the sectoral PMI's, the UK Construction index also declined in April, down to 58.2 from 59.1 the previous month. This is still indicative of strong growth in the sector with new orders growing, albeit at their lowest rate this year. Rising material costs, higher borrowing costs and geopolitical uncertainty are all cited as placing downward pressure on future demand.
- UK consumer price inflation reached 9.0% in the 12 months to April, a significant rise over March's figure of 7.0% and the highest rate in over 40 years, according to the latest data from the Office for National Statistics (ONS). The sharp rise in energy prices in April was a significant contributor but other increases came from recreational and cultural activities, restaurant and hotel prices, food and non-alcoholic beverages and household goods.
- As was widely anticipated, the Bank of England increased interest rates at the Monetary Policy Committee's latest meeting, moving from 0.75% to 1.0%. Rates have not been this high since 2009 and this is the fourth time in a row that interest rates have risen. The MPC noted that they expect "a material deterioration in the outlook" for the UK economy, as inflation is now expected to increase to 10% and GDP is now expected to contract by 0.25% next year. External shocks to the economy including the war in Ukraine as well as widely increasing costs across most sectors will put strong pressure on consumers and businesses, with the Bank also anticipating a rise in unemployment over the next two years.
- UK employment increased on the quarter to 75.7%. This reflects a 0.1 percentage point increase over the previous three months, but it is still 0.9 percentage points lower than before the pandemic. The unemployment rate however decreased yet again, falling to 3.7% in the three months to March, its lowest rate in 50 years, since records began.
- The tight labour market is also shown in the number of vacancies, which rose again between February and April, to a new record of 1.295 million. Data shows that the pace of vacancy growth may be slowing, but 11 of 18 industry sectors are still displaying record high ratios of vacancies to employed persons.
- Regular pay is lagging behind inflation as wage growth reached 4.2% per annum in the three months to March (excluding bonuses). Adjusted for inflation this means wages fell by 1.2% over the period, as the cost of living continues to squeeze. Job-to-job moves are beginning to slow as consumer confidence falls and employees feel 'safer' staying put. As a result, this may be bringing the pace of wage growth down.

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

Residential property market

Sales Prices and Rents

- Annual UK house price growth slowed slightly in April, to 12.1% down from March's long-term high of 14.3%, according to Nationwide. Nevertheless, as the bank goes on to say, this is the 11th time in the last 12 months that house price growth has been in double digits. On a monthly basis, house price growth is also slowing, moving from 1.1% in March to just 0.3% in April.
- The pace of house price growth slowed in April according to Halifax, as well. Annually, prices rose by 10.8% but this is down from 11.0% in March. On a monthly basis house price inflation was found to have risen by 1.1% during the month, compared with 1.5% the month prior. Halifax notes that detached and semi-detached property prices have risen by over 12% over the past year, compared with 7.1% for flats, further enforcing the notion that the majority of demand has come from larger families looking to upsize or relocate for more space.
- The official house price index from HM Land Registry and the ONS found that UK house prices rose by an average of 9.8% over the 12 months to March, down from (an upwardly revised) 11.3% in February. On a monthly basis prices grew by an average of 0.3%, with this monthly growth showing signs of slowing. Average UK house prices are now £278,436, equating to an additional £45,750 to the average cost of a house since the pandemic began two years ago.
- House prices in the East Midlands were found to have grown the most in March, with the average property price there rising by 12.4% on the year. This was closely followed by Wales and the South East which posted 11.7% house price growth. This is now the 13th consecutive month of double-digit house price inflation in Wales, with prices there now averaging £206,400. This is 24% above where they were at the start of the pandemic two years ago, or nearly £40,000 more.
- Across our Carter Jonas office location areas, yet again the top of the table is dominated by areas across the South and West, with Cornwall experiencing a 15.3% increase, although this is closely followed by Winchester (14.7%), and North Northamptonshire (14.5%), West Oxfordshire (14.4%) and Bath and North East Somerset (14.4%).
- London's house price growth is still more subdued when compared with most of the rest of the country although this month prices across the prime central London market jumped by a hefty 14.2%, while south west London saw increases of 8.3%, some of the strongest growth we have seen in these areas recently.
- House prices continue to be driven upwards amid a backdrop of restricted supply, according to the April edition of the RICS residential market survey. A net balance of +80% of respondents noted an increase in house prices during the month, up from +74% in March. This measure is a little forward-looking, so it can be assumed that prices in the near-term will continue to rise. A net balance of +62% of participants expect prices to continue to increase over the next 12 months, down slightly from two months prior when the balance was +78%.
- Zoopla's latest house price index (March) reports annual price growth of 8.3% across the UK as buyer demand continues putting upward pressure on prices. Yet again, the highest house price growth was recorded in Wales (12.1%), compared with a meagre rise of 3.4% in London.
- Rents across the country continue to rise substantially, with HomeLet noting a UK annual growth rate of 9.5% in April (although this drops slightly to 7.9% when London is excluded). Greater London has now seen the sixth consecutive month of double-digit rental growth, now reaching an annual rate of 14.2% according to the series. Scotland was next in the table with 12.3% growth recorded, followed by the North West at 11% annual increase.
- Rightmove's first quarter 2022 rental index also reports rapidly rising asking rental rates across the country. UK asking rents were said to have risen by 10.8% annually, the first time this dataset has risen by over 10%. Greater London asking rents grew by 14.3% according to the web giant, the largest annual rise of any region since their records began.
- Zoopla / Hometrack's Q1 2022 rental market report finds that rents across the UK rose by an average of 11%. Across London, rents were found to have risen by 15.7% annually. The report goes on to say that rental growth is likely to ease over the latter half of 2022 due to increasing affordability constraints and 'challenging economic conditions'.
- The May RICS residential market survey reports that +63% of respondents expect rents to rise over the next three months, once again a new record for this metric, in the over 23 years of data collection. All regions and countries of the UK expect to see rental growth pressure continue over the short term.

Activity

- Bank of England data on mortgage approvals for March (latest data) finds that the number of approvals has not changed over February's figure, reaching 70,691 for the month. Although these numbers are down significantly from the same time last year, they are still above their longer-run pre-COVID average by around 6% and indicate that demand is so far holding up, despite rising interest rates and inflation.
- Property transactions during March (HMRC latest data) actually rose, increasing 3% over February to just under 115,000 transactions. This remains well above the longer-term average although as with mortgage levels, it is well below the same time last year when 183,000 transactions took place (March 2021 however was the 'original' end of the stamp duty holiday, before it was extended).
- Meanwhile Zoopla's latest house price index report mirrors the transaction data in that buyer demand is still very strong, sitting at 58% above the five-year average for this time of year. On the other hand, the number of properties listed for sale is 40% below the five-year average. Having said that, the web giant does go on to say that the supply of newly listed homes for sale has started to rise.
- A striking 38% of consumers are either considering or are in the process of a move according to Nationwide. The Bank conducted a consumer survey as part of their latest house price index this month. On a regional level, the number was highest in London where almost half of those surveyed said they were moving or considering a move.
- Buyer demand remained in positive territory according to the RICS April market survey. A net balance of +10% of participants reported another increase in new buyer enquiries, little changed from +9% the previous month. Meanwhile, new instructions were again virtually unchanged with a net balance of -1% of respondents indicating there were new listings. Average stock levels on agents' books remain at historically low levels while market appraisals undertaken have also seen very little change.
- Tenant demand in the rental sector continues to outstrip supply with Rightmove noting in their latest quarterly rental market tracker. On a national basis tenant demand is up 6% while available properties are down 50% compared to the same period last year. In London though the mismatch is even more stark with tenant demand up by 81% while available properties are down 47% compared to the more 'normal' market in 2019.

- Zoopla's latest quarterly rental report finds that tenancy lengths are rising. Tenants may be more inclined to stay put, negotiating with the current landlord rather than moving and risking a higher rent increase.
- Once again, the RICS market survey on the lettings side reported a net balance of +52% of participants noting an increase in tenant demand in the three months to April. At the same time, the landlord instruction indicator remained negative at -7%, although this is not as low as the previous four months which were all in double-digit negative territory.



HM Treasury Forecasts for the UK Economy, April 2022

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

	2022	2023	2024	2025	2026
Official Bank Rate (%)	1.19	1.46	1.39	1.49	1.53
House Price Growth (annual, %)	4.3	1.0	1.9	2.4	2.7
CPI inflation rate (annual average, %)	7.2	2.5	2.0	2.0	2.0
Unemployment rate (%)	4.1	4.0	3.9	3.9	3.9
GDP (annual, %)	4.1	1.5	1.6	1.6	1.6
Average earnings growth (annual, %)	4.7	3.4	3.1	3.2	3.3

Select Market Indicators, latest versus previous data

Sources: ONS (unless otherwise indicated) (final six indicators retrieved 20 May)

	Current	Previous	Direction of change
GDP monthly (month-on-month)	-0.1%	0.0%	↓
Retail sales volume (monthly % change)	+1.4%	-1.2%	↑
GfK Consumer Confidence Index	-40	-38	↓
S&P Global / CIPS Manufacturing PMI	55.8	55.2	↑
S&P Global / CIPS Construction PMI	58.2	59.1	↓
S&P Global / CIPS Services PMI	58.9	62.6	↓
Inflation rate (CPI)	9.0%	7.0%	↑
Interest rate	1.0%	0.75%	↑
Employment rate	75.7%	75.5%	↑
Unemployment rate	3.7%	3.8%	↓
Weekly earnings growth, regular pay (excl bonuses)	4.2%	4.0%	↑
Nationwide annual house price inflation	12.1%	14.3%	↓
Halifax annual house price inflation	10.8%	11.0%	↓
Official UK House Price inflation (annual)	9.8%	11.3%	↓
HomeLet Rental Index (annual growth, UK)	9.5%	8.7%	↑
£ Sterling: \$ USD	\$1.25	\$1.30	↓
£ Sterling: € Euro	€1.18	€1.20	↓
Brent Crude Oil (USD)	\$111.95	\$106.47	↑
Gold (USD)	\$1,844.35	\$1,943.33	↓
FTSE 100	7,417.76	7,581.60	↓
UK 5 YEAR GILT YIELD	1.6095	1.8020	↓

Official House Price data, HM Land Registry, March 2022

Sources: HM Land Registry

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
Cornwall	£305,969	0.9%	15.3%
Winchester	£507,658	3.3%	14.7%
North Northamptonshire	£259,402	2.2%	14.5%
West Oxfordshire	£392,925	2.0%	14.4%
Bath and North East Somerset	£423,691	1.0%	14.3%
Devon	£323,677	-0.2%	13.3%
Cambridgeshire	£348,130	1.0%	13.2%
Vale of White Horse	£422,393	1.8%	12.9%
Somerset	£292,007	0.9%	12.3%
South Cambridgeshire	£443,896	0.9%	11.4%
Suffolk	£292,939	0.4%	11.3%
Wiltshire	£327,741	1.7%	11.3%
Dorset	£345,976	0.3%	11.2%
York	£306,919	1.1%	10.9%
West Northamptonshire	£285,757	1.6%	10.4%
West Berkshire	£396,166	-1.0%	10.2%
South Oxfordshire	£495,695	1.5%	9.7%
Harrogate	£329,191	1.7%	8.7%
Oxford	£471,179	1.7%	8.7%
Leeds	£226,876	0.1%	8.4%
Cambridge	£486,061	0.4%	7.4%

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
East Midlands	£240,329	1.2%	12.4%
Wales	£206,395	0.4%	11.7%
South East	£384,966	1.1%	11.7%
South West	£313,834	0.1%	10.9%
East of England	£343,900	-0.8%	10.9%
West Midlands region	£240,528	1.1%	10.3%
England	£297,524	0.3%	9.9%
United Kingdom	£278,436	0.3%	9.8%
North West	£205,121	0.4%	9.7%
Yorkshire and The Humber	£199,607	-0.2%	9.0%
North East	£154,913	1.1%	8.7%
London	£523,666	-0.9%	4.8%

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£523,666	-0.9%	4.8%
Prime Central London	£1,241,123	4.3%	14.2%
South West London	£719,896	0.7%	8.3%

Official House Price data, HM Land Registry, March 2022

Sources: HM Land Registry

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Kensington And Chelsea	£1,451,567	5.6%	20.3%
Richmond upon Thames	£770,509	1.5%	13.6%
Bexley	£395,675	1.6%	10.3%
Barking and Dagenham	£342,466	0.2%	9.8%
Bromley	£495,597	0.9%	9.4%
Sutton	£430,730	0.7%	9.1%
Ealing	£546,906	3.3%	8.9%
Redbridge	£485,183	0.9%	8.8%
City of Westminster	£1,030,679	2.4%	8.0%
Camden	£868,105	-1.8%	7.8%
Croydon	£419,612	3.2%	7.5%
Hillingdon	£453,297	0.7%	6.5%
Barnet	£576,886	-1.1%	6.4%
Havering	£408,884	-0.4%	6.3%
Wandsworth	£635,944	0.8%	6.1%
Greenwich	£433,711	0.9%	6.0%
Harrow	£510,962	-1.5%	5.2%
Hammersmith and Fulham	£753,234	-0.3%	5.0%
London	£523,666	-0.9%	4.8%
Hackney	£620,454	-2.8%	4.7%
Merton	£564,749	-0.6%	4.3%
Newham	£408,856	1.3%	3.8%
Waltham Forest	£499,051	2.1%	3.2%
Tower Hamlets	£482,997	0.3%	3.1%
Enfield	£434,190	-0.3%	2.8%
Islington	£699,757	2.5%	2.0%
Kingston upon Thames	£516,015	-1.0%	2.0%
Haringey	£584,622	-1.0%	1.5%
Lambeth	£542,820	-0.4%	1.4%
Hounslow	£431,343	-1.6%	1.3%
Brent	£513,666	-1.0%	0.1%
Southwark	£525,923	-2.4%	0.0%
Lewisham	£446,777	2.8%	-0.5%
Outer London	£478,225	0.6%	6.7%
Inner London	£616,036	0.4%	4.1%

HomeLet Rental Index, April 2022

Source: HomeLet Rental Index

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
Greater London	£1,804	1.9%	14.2%
Scotland	£774	0.5%	12.3%
North West	£878	0.8%	11.0%
UK	£1,091	1.2%	9.5%
South West	£1,035	1.8%	8.4%
Yorkshire & Humberside	£749	0.8%	8.1%
UK (excluding London)	£920	1.1%	7.9%
West Midlands	£813	1.1%	7.7%
Northern Ireland	£721	0.4%	7.6%
North East	£594	0.8%	7.0%
Wales	£734	1.1%	7.0%
East Midlands	£755	0.8%	6.5%
East Of England	£1,055	1.1%	6.2%
South East	£1,164	1.4%	5.6%

ABOUT CARTER JONAS

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