

Residential Update and Outlook

July 2023

Market Overview

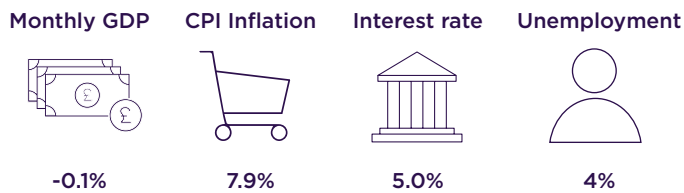
*High and persistent inflation coupled with the resultant increases in interest rates and uncertainty over how long inflation will remain high is weighing heavily on both households and corporate minds. This quarter's recently released **Deloitte CFO survey** shows that these are now of greater concern than wider geopolitical and energy issues which had been dominating concerns over the previous two years. Clearly getting inflation under control is now of key importance to households, businesses, and the wider government.*

The Bank of England's latest figures on mortgage approvals showed they held stable (albeit a small rise was recorded) between April and May, continuing to hover at 50,000 per month. Overall transactions however fell slightly and both mortgage approvals and transactions are well below their long-term averages. With this in mind clearly the decline in demand is placing downward pressure on prices which is hardly surprising given rising mortgage rates and costs of living generally. Nationwide recorded an annual 3.5% fall in prices while Halifax found they had declined 2.6% over the last 12 months.

Key Points

- Monthly GDP fell by an estimated 0.1% in May, with all three main sectors showing a decline. In the three months to May there has been no GDP growth.
- Retail sales for June rose 0.7%, up from a downwardly revised 0.1% in May. This marks the third month of rising sales volumes with all main sectors noting a rise during the month.
- The persistently high inflation and rising interest rates appears to have caught up with consumers sentiment as the July GfK consumer confidence measure fell for the first time in six months to -30, down from a 17 month high of -24 in June.
- The rate of inflation fell in June down to 7.9% from 8.7% in both April and May, better than markets had anticipated. It is still high though and the MPC may yet increase rates by another 25 basis points in their next meeting in early August.
- The unemployment rate rose slightly to 4.0% owing mainly to a rise in those unemployed for less than 12 months. Job vacancies meanwhile also fell for the 12th consecutive quarter, by around 85,000.
- Wages grew by an unprecedented 7.3% according to the latest labour market data, up from 7.2% last month. There are now real worries that we are entering, or already in, a wage-price spiral.
- All three Purchasing Managers Indices (PMI) declined on the month with only the services sector in expansion territory (a figure above '50'). The construction sector PMI moved into contraction for the first time in five months amid a sharp slowing in residential building.
- Bank of England mortgage approvals ticked up very slightly in May although they remain over a third less than the long-term average. Overall recorded transactions are also down although these are only 14% below their long-term average, signalling that cash buyers are more active than those with a mortgage.
- Nationwide recorded a -3.5% annual decline in house prices in June while Halifax posted a -2.6% fall. Halifax noted that despite the overall decline new build homes actually saw a +1.9% rise in average price over the last 12 months.
- Rental growth continued its upward trajectory again in June, rising by an annual average of 10.4% and marking the third month in a row of a rising pace of growth.
- ARLA Propertymark reported a 19% fall in the number of available properties to rent in June 2023, compared with June 2022, while tenant registrations rose 27% over the same period.

Economic backdrop



Sources: Bank of England, ONS

The Macroeconomy

- GDP is estimated to have declined by 0.1% in May (month on month) following a rise of +0.2% the month before, according to the ONS. On a disaggregated basis production output was found to have fallen -0.6% while the construction sector also showed contraction of -0.2% on the month. The services sector showed no growth in the month although consumer-facing services fell by -0.2% following strong growth of 1.1% in April. In all, the economy appears to have been negatively impacted by both an additional Bank Holiday during the month (the King's Coronation) and labour disputes.
- The pace of CPI inflation slowed in June, down to 7.9% from 8.7% the month before, and although it is clearly still very high by historic standards it is the lowest rate since March 2022. Falling prices for motor fuel led to the largest downward contribution in June while food prices continued to rise although by less than they did one year ago which also contributed to the easing of rates. Somewhat encouragingly there were no large offsetting upward contributions in June, and on a monthly basis prices rose by 0.1%.
- There is no Monetary Policy Committee meeting in July with the next meeting scheduled for early August. The Bank Rate therefore remains at 5.0% with average mortgage lending rates now above 6%.

Labour and employment

- Across the labour market the employment figure remained unchanged in the three months to May at 76.0%. The unemployment rate meanwhile has crept up to 4.0%, rising now for the second month in a row and driven by people unemployed for up to 12 months, while those unemployed for more than 12 months decreased this quarter.
- Job vacancies have fallen again this quarter, down by an estimated 85,000 in the three months to May to reach 1.034 million. Total vacancies are now down by 265,000 from the same period one year ago although they are up by 232,000 compared with the pre-COVID quarter of Jan-March 2020.
- Wages, excluding bonuses were 7.3% higher than one year ago, in the three months to May. This is the largest ever increase outside of the pandemic period and above consensus forecasts. There are now real worries that

this continued growth in wages will put even further pressure on inflation as companies may feel forced to raise prices for their goods or services, to pay for rising wage packets.

Market indicators

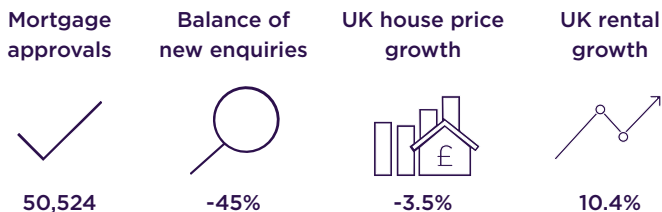
- UK Manufacturing's PMI (Global / CIPS) dipped in June to 46.5 from 47.1 the month before. This marks the 11th month of contraction in the sector and has declined now for the fourth month in a row. Employment in the sector has also fallen now for the ninth consecutive month while input costs fell at their fastest rate since February 2016 off the back of weaker demand and falling fuel costs and commodity prices.
- On the other hand the UK Services PMI remained in expansion territory with a reading of 53.7 in June although this is the lowest figure for three months from this sector. Slower increases in business activity combined with lower new work orders to lower the figure over last month (55.2) but export sales were strong and jobs were created at their fastest rate since September of last year. The rise in employment helped to boost business output and reduce the backlog of work for the first time since January.
- The Construction sector PMI came in at a disappointing 48.9 in June, down from 51.6 the month before and into contraction territory for the first time in five months. Residential / housebuilding work fell at its sharpest rate since May 2020 and the fastest outside of the pandemic period since 2009. Weakening demand and higher borrowing rates are clearly weighing on the sector. On the other hand, both commercial and civil engineering work expanded during the month. All industries saw a reduction in new orders but there were fewer logistics issues with a strong improvement in delivery times and purchase prices.

Consumer demand and sentiment

- Latest estimates indicate that retail sales volumes rose by 0.7% in June, up from (a revised) 0.1% in May. Increases were noted in all the main sectors apart from auto fuel sales. This now marks the third straight month of growth in the retail trade which was probably helped by summer sales and the impact of better weather. Food sales volumes increased 0.7% following a fall of 0.4% in May and non-food retailing grew by 0.1% with department stores seeing a 1.9% increase.
- Consumer confidence decreased six points in July to -30 from -24 the month before. Decreases were found in all five sub-measures. This is the first month on month decline in the overall measure since January. Clearly the disappointing inflation data from last month (May's figure of 8.7%), and the resulting rise in the Bank

Rate by 50 basis points to 5.0% impacted consumers sentiment about their finances and the economy going forward; these metrics decreased by six and eight points respectively while the major purchase index fell seven points, making it clear that people are pulling back from spending.

Residential market



Sources: Bank of England, RICS, Nationwide, HomeLet

Residential sales

Mortgages and transactions

- Bank of England mortgage approvals remained relatively stable albeit low by long-term standards. In May 50,524 approvals were recorded, up from a revised 49,020 the month before. The last six months have seen approvals averaging just over 45,000 per month which is 33% below the monthly ten-year average of 66,900 per month.
- Total residential transactions meanwhile (as recorded by HMRC) declined marginally in May, to 80,020 on the month. This is now the sixth month in a row where transactions have fallen below 100,000. However, unlike mortgage approvals this six-month average is only 14% below the ten-year monthly average of 100,850 transactions. This discrepancy between mortgage approval averages and transaction levels is a clear indication that cash buyers are far more active than those needing a mortgage.

Supply and demand

- New buyer enquiries slipped to -45% in June according to the latest RICS Residential Market Survey, down from -20% last month. Disappointingly this is the lowest figure for eight months and comes amid higher borrowing costs as interest rates rose again. Other indicators also declined with agreed sales moving to -34% from -8% the month before and sales expectations both in the near term and longer term moving to -36% and -31%, respectively.
- On the supply side the new sales instructions metric remains steady at -1% although this is down from a more positive +14% last month. Stock levels on estate agents' books have not changed much with an average of 37.4 properties per branch. It is worth noting though that this stock level is higher than it was at the end of last year albeit by historic standards it remains low.

- Buyer demand remains resilient, with Rightmove noting a 3% increase in demand compared to the same period in 2019. The number of properties for sale though is 12% lower than this same timeframe. That said, despite this mismatch in supply and demand the number of agreed sales is down overall with mid-market / second-stepper homes as well as top of the market homes seeing agreed sales down 14% over the 2019 figure, with smaller home sales being just 9% below this level.

UK prices and price growth

- House prices grew very slightly on a monthly basis, rising by +0.1% in June, according to Nationwide's latest index report. On an annual basis the direction of travel remained broadly the same with average UK prices falling by around 3.5% over last year, little changed from the 3.4% fall recorded in May.
- The Halifax house price index meanwhile has also recorded an annual decline of -2.6% with a small monthly fall of -0.1% in June. On a disaggregated basis though the Bank found that new build properties saw a +1.9% rise on an annual basis compared with a -3.5% fall for secondhand homes. There were annual declines across all property types, with flat prices declining by -3.1% compared with a more modest -1.3% fall in detached homes.
- In terms of asking prices, Rightmove continues to record annual rises although the pace of growth is certainly slowing. This month a 0.5% increase was recorded over the 12 months to mid-July, down from the 1.1% rise last month. On a monthly basis asking prices declined by 0.2% indicating that vendors are trying to tempt buyers by reducing their price expectations in the face of rising interest rates and affordability constraints.
- House price growth continued to slow in May, according to the latest data from the ONS (two-month lag). Across the UK house prices were found to have increased by an average of 1.9%, down from 3.5% the month before. On a monthly basis there was no growth (0.0%), also down from April's figure of +0.5%. The average UK property now averages £285,861, 2.3% below last September's peak of £292,555 but marks an increase of 24% over the £230,609 pre-pandemic average (February 2020).
- Meanwhile the latest view on house prices from respondents to the June RICS market survey returned a net balance of -46%, down from -30% in May, with all regions of England seeing house price declines, although Northern Ireland and Scotland returned more upbeat figures. Looking ahead both the three month and twelve-month price expectation measures remain negative with a particularly negative balance of -49% for the longer-term.



Regional prices and price growth

- Nationwide's regional quarterly index was released this quarter (Q2) and posted an average annual quarterly fall in prices of -3.1%. Of the 13 locations just one recorded quarterly price growth over the same period last year although at +0.7% (Northern Ireland) this is only a modest rise. All other areas posted falls with the weakest being East Anglia (-4.7%), London (-4.3%) and the North West (-4.1%).
- In our Carter Jonas office locations, there is still house price growth being recorded in all but one of the 21 tracked locations as South Oxfordshire recorded a small 12-month decline of 0.6%. At the other end of the table though Winchester house prices are still climbing with the latest figures recording a 10% rise over the 12 months to May, followed by West Oxfordshire at 8.2% and Leeds at 4.4%. On average, the 21 locations showed house price inflation of 3.1% over the year.
- Across London house prices grew by an average of 0.8% over the year to May, down from 2.1% the previous month and reflecting a 1.2% monthly decline between April and May. The outer London boroughs saw prices rise by an average of 1.5%, little different to the inner London boroughs which posted a 0.9% increase.

Residential lettings

Supply and Demand

- Latest data from the RICS market survey found a net balance of +40% of participants witnessed an increase in tenant demand in June, with a correspondingly

sharp -36% measure of new landlord instructions. This is now the most negative reading in landlord instructions since May 2020 and further reinforces the general market trend for a number of years now of the widening imbalance between supply and demand in the lettings market.

- ARLA's latest housing insight report noted a 19% reduction in the number of available properties to rent in June 2023 compared with just 12 months prior, while the number of new tenants registered per branch is up 27%. This has led to a 57% rise in the mismatch between supply and demand in the private rented sector and is directly contributing to the persistent and strong rise in rents recently.

Rents and rental growth

- Although the pace of rental growth had been very slowly coming down since reaching a peak late last year, the last three months has seen the pace of growth rising yet again. Average rental growth reached 10.4% per annum in June, according to HomeLet. This is the strongest pace of growth since December 2022 with an uptick noted in six of the regional and country-tracked areas. In London growth reached 12.5% annually while Scotland has yet again (for the third consecutive month) posted the strongest rate of growth of all regions and countries at 15.8%.
- 62% of ARLA's agents reported a rise in rents month-on-month. While high, this is still down from 68% the month before and 80% one year ago.

HM Treasury Forecasts for the UK Economy, July 2023

Sources: HM Treasury Consensus Forecasts (July 2023 and May 2023 (long-term forecasts))

	2023	2024	2025	2026	2027
Official Bank Rate (%)	5.6	4.94	3.24	2.91	2.63
House price inflation (annual, %)	-5.1	-3.1	1.1	3.4	5.2
CPI inflation rate (annual average, %)	5.0	2.7	2.0	2.1	2.2
Unemployment rate (%)	4.1	4.4	4.2	4.2	4.2
GDP (annual, %)	0.2	0.7	1.7	1.9	1.9
Average earnings growth (annual, %)	5.3	3.5	3.1	3.1	3.1

Select Market Indicators, latest versus previous data

Sources: ONS (unless otherwise indicated) (final six indicators retrieved 21 July)

	Current	Previous	Direction of change
GDP monthly	-0.1%	+0.2%	↓
Inflation rate (CPI)	7.9%	8.7%	↓
Interest rate	5.0%	5.0%	↔
Employment rate	76.0%	76.0%	↔
Unemployment rate	4.0%	3.8%	↑
Weekly earnings growth, regular pay (excl bonuses)	7.3%	7.2%	↑
S&P Global / CIPS Manufacturing PMI	46.5	47.1	↓
S&P Global / CIPS Services PMI	53.7	55.2	↓
S&P Global / CIPS Construction PMI	48.9	51.6	↓
Retail sales volume (monthly % change)	0.7%	0.1%	↑
GfK Consumer Confidence Index	-30	-24	↓
Bank of England mortgage approvals (monthly)	50,524	49,020	↑
Nationwide house price inflation (annual)	-3.5%	-3.4%	↓
Halifax house price inflation (annual)	-2.6%	-1.0%	↓
Official UK House Price inflation (annual)	1.9%	3.5%	↓
Rightmove House Price Index (annual, asking)	0.5%	1.1%	↓
HomeLet Rental Index (annual, UK)	10.4%	10.0%	↑
£ Sterling: \$ USD	\$1.30	\$1.27	↑
£ Sterling: € Euro	€1.16	€1.16	↔
Brent Crude Oil (USD)	\$80.13	\$74.46	↑
Gold (USD)	\$1,962.91	\$1,927.61	↑
FTSE 100	7,647.31	7,435.04	↑
UK 5 Year Gilt Yield	4.4360	4.6095	↓

Official House Price data, HM Land Registry, May 2023

Sources: HM Land Registry

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
Winchester	£518,101	2.8%	10.0%
West Oxfordshire	£403,015	-1.2%	8.2%
Leeds	£237,818	0.9%	4.4%
North Northamptonshire	£271,439	1.1%	3.9%
Devon	£336,182	0.2%	3.8%
West Berkshire	£407,790	-2.1%	3.7%
Wiltshire	£337,973	-0.4%	3.5%
Oxford	£478,100	1.2%	3.5%
York	£319,268	-1.1%	3.4%
Somerset	£302,001	0.3%	3.3%
Cambridge	£510,014	3.0%	2.8%
West Northamptonshire	£295,459	-1.1%	2.8%
Cambridgeshire	£354,625	-0.7%	2.4%
North Yorkshire	£274,967	-0.9%	2.2%
Dorset	£362,101	-0.5%	2.2%
Cornwall	£313,324	-1.3%	1.8%
South Cambridgeshire	£443,871	-0.9%	1.0%
Vale of White Horse	£421,240	0.3%	0.8%
Bath and North East Somerset	£426,968	-1.3%	0.8%
Suffolk	£295,136	-1.3%	0.4%
South Oxfordshire	£501,398	-3.4%	-0.6%

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
North East	£158,779	-1.0%	4.0%
East Midlands	£247,242	0.3%	3.4%
North West	£211,790	-0.2%	2.7%
West Midlands region	£248,166	0.5%	2.2%
United Kingdom	£285,861	0.0%	1.9%
Wales	£213,374	0.6%	1.8%
England	£303,557	-0.4%	1.7%
South East	£388,873	-0.9%	1.5%
Yorkshire and The Humber	£204,588	-0.4%	1.2%
South West	£323,765	-0.2%	1.0%
London	£525,629	-1.2%	0.8%
East of England	£345,710	-0.8%	0.0%

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£525,629	-1.2%	0.8%
Prime Central London	£1,117,865	2.3%	-10.2%
South West London	£724,463	1.4%	2.2%

Official House Price data, HM Land Registry, May 2023

Sources: HM Land Registry

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Hackney	£646,689	2.3%	8.3%
Tower Hamlets	£501,583	-0.1%	7.2%
Barking and Dagenham	£355,594	1.4%	5.8%
Hammersmith and Fulham	£787,893	3.3%	5.8%
Haringey	£605,643	2.0%	4.4%
Kingston upon Thames	£552,129	-0.5%	4.0%
Waltham Forest	£504,472	-1.7%	3.9%
Bexley	£400,221	-0.9%	3.9%
Hounslow	£444,127	-3.0%	3.6%
Newham	£415,092	3.0%	3.2%
Bromley	£503,691	0.0%	2.6%
Ealing	£527,622	-0.3%	2.4%
Harrow	£512,866	0.0%	2.2%
Lambeth	£545,537	-1.8%	1.9%
Hillingdon	£453,689	-0.3%	1.7%
Southwark	£535,043	1.4%	1.5%
Sutton	£430,883	-0.6%	1.5%
Merton	£564,071	-2.6%	0.9%
Richmond upon Thames	£756,534	-0.4%	0.8%
London	£525,629	-1.2%	0.8%
Havering	£421,725	-2.0%	0.7%
Camden	£860,920	-2.5%	0.6%
Redbridge	£460,849	-1.3%	0.5%
Wandsworth	£628,961	1.2%	0.2%
Greenwich	£419,857	-3.8%	0.0%
Enfield	£445,676	1.0%	-0.2%
Croydon	£412,288	-0.2%	-0.2%
Lewisham	£442,180	-3.6%	-0.2%
Barnet	£579,798	-1.1%	-0.5%
Brent	£524,395	-1.4%	-0.8%
Islington	£690,034	0.3%	-5.1%
City of Westminster	£921,609	3.0%	-7.0%
Kensington And Chelsea	£1,314,120	1.8%	-13.4%
Outer London	£480,151	-0.9%	1.5%
Inner London	£616,323	0.5%	0.9%

HomeLet Rental Index, June 2023

Source: HomeLet Rental Index

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
Scotland	£940	5.5%	15.8%
Greater London	£2,077	1.9%	12.5%
West Midlands	£915	1.9%	10.8%
UK	£1,229	1.3%	10.4%
Wales	£828	0.9%	10.1%
South East	£1,306	0.9%	9.7%
UK (excluding London)	£1,027	1.1%	9.7%
North West	£967	0.7%	9.5%
East Of England	£1,166	0.4%	8.9%
Yorkshire & Humberside	£828	0.5%	8.8%
East Midlands	£832	0.2%	8.1%
Northern Ireland	£810	1.5%	7.4%
South West	£1,128	0.6%	7.1%
North East	£625	-1.1%	6.3%

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 over 1,000 property professionals, our commercial team is renowned for their quality of service, expertise and the **simply better property advice** they offer their clients.

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