Carter Jonas

Residential
Update and Outlook

September 2023

Market Overview

The pace of CPI inflation is finally easing, from a peak of 11.1% in October 2022 to 6.7% in August 2023, with consensus expectations for further declines below 5% by the end of the year. This reduced rate of inflation likely contributed to the MPC's decision to hold base rates at 5.25% at its latest meeting, the first time it has not increased rates in nearly two years. Nevertheless, unlike previous cycles of interest rate rises, the majority of homeowners are now on fixed-rate mortgages so the recent increases may have a longer lag before they are fully felt. With that in mind, the coming 12-18 months might see a further tightening of household and consumer spending as homeowners are forced to remortgage at these much higher rates.

The residential sales sector was unsurprisingly quieter during the summer months and particularly in August with many people on holiday. September though has seen a small increase in the number of homes available for sale according to Rightmove, but the latest RICS survey is still showing new buyer enquiries are well below normal levels. Prices are therefore following suit, as both Nationwide and Halifax report falling annual prices amid this slowing demand.

Key Points

- *Industrial action and poor weather played a part in a monthly fall in GDP in July of -0.5%. All three main sectors were found to have fallen during the month.*
- *Retail sales recovered some of their July losses, rising by +0.4% in August. Food stores marked the strongest growth, increasing by 1.2% following a sharp fall of -2.6% in July.*
- *GfK's consumer confidence measure rose to -21 in September, the highest reading since January 2022 and well above the figure of -49 this time last year. Slowing inflation and rising wages are improving the overall mood of consumers.*
- *Inflation slowed again in August, down moderately to 6.7% from 6.8% the month before. This is now the lowest rate in 18 months and the sixth month in a row of either no change or falling growth.*
- *Job vacancies fell for the 14th consecutive quarter, with the figure now below the one million mark for the first time in over two years.*
- *The unemployment rate continues to creep up, increasing marginally to 4.3% in the three months to July. Nevertheless, consensus forecasts are not anticipating a change in this for the remainder of the year before rising to 4.5% in 2024.*
- *Wages continue their upward march, increasing by an average of 7.8% in July and marking the highest rate since modern records began.*
- *Both the manufacturing and services sector Purchasing Managers Index (PMI) contracted in August, with manufacturing showing a particularly low figure of 43.0. The construction services PMI is only just in expansion territory at 50.8, buoyed by civil engineering and commercial projects, while housebuilding is slowing.*
- *Mortgage approvals fell in July, below 50,000, about where they have hovered each month for most of this year. Cash buyers are still slightly more prevalent as overall transaction volumes are not down by as much as mortgage approvals, compared with last year.*
- *Both Nationwide and Halifax recorded annual house price declines in their latest index reports, at -5.3% and -4.6% respectively. Both indices have been showing this downward trend for at least the last four months.*
- *There was no change in the recent strong rate of rental growth this month with HomeLet still showing annual rates increasing by over 10% in August. UK rents have now grown by an average of 20% in just the last two years.*

Economic backdrop

Monthly GDP	CPI Inflation	Interest rate	Unemployment
-0.5%	6.7%	5.25%	4.3%

Sources: Bank of England, ONS

The Macroeconomy

- Following robust growth of 0.5% in June the economy faltered slightly in July with GDP found to have fallen by -0.5% in the latest estimate. Declines were recorded in all three main sectors with a fall of -0.5% in the services sector, the main contributor to the overall fall. Production output also declined by -0.7% while the construction sector contracted -0.5% following +1.6% in June. Despite falls across all sectors industrial action in both the health and education sectors during July likely influenced some of the contraction, as did the poor weather.

- Inflation slowed again in August, to 6.7% over the 12 months although this is only slightly down from July's figure of 6.8%. This is now the lowest rate of inflation since February 2022, with the largest downward contribution coming from a slowdown in food inflation and accommodation services. Encouragingly, 'core' inflation (excluding food and energy) dropped to 6.2%, the lowest rate since March and well below consensus expectations of 6.8%.

- The Monetary Policy Committee held interest rates unchanged at 5.25% this month, for the first time in 15 meetings. This comes after a faster-than-expected fall in core inflation and the continuing decline in CPI inflation. The latest move suggests that we may now be at the peak of the interest rate cycle, especially if forecasts of a continued decline in the pace of inflation hold true. Nevertheless, base rate is likely to remain at 5% or more, until at least the second half of 2024.

Labour and employment

- In the three months to July the employment rate rose slightly to 75.5%, driven mainly by a decrease in the number of full-time self-employed persons. The unemployment figure conversely increased to 4.3%, driven by an increase in persons unemployed by up to 12 months.

- Overall employment numbers (as measured by the timelier estimate of payrolled employees) remained largely unchanged in August, down by 1,000 workers over July's figure. Meanwhile job vacancies fell again for the 14th consecutive period, down 64,000 to an estimated 989,000 and the first time the figure has fallen below one million in over two years.

- In May to July the annual growth in wages (excluding bonuses) remained unchanged over the previous quarter, at 7.8%. This remains the highest figure since comparable records began in 2001. The figure including bonuses was much higher, at 8.5%, but this was affected by NHS and civil service one-off payments that were made in June and July 2023.

Market indicators

- The S&P Global / CIPS Manufacturing PMI fell again in August, to 43.0 down from 45.3 in July. This is now the sixth month in a row where the index has declined and represents the lowest figure since May 2020. The pace of falling output was at its steepest rate in the survey's history this month while both new orders and new export business also contracted the most since the 2007/08 global financial crisis. Employment contracted for the 11th consecutive month but on a positive note purchasing costs fell at their lowest rate since January 2016.

- The UK Services PMI also declined in August, falling into contraction territory (below '50') for the first time since January at 49.5. Both business spending and consumer spending declined as borrowing costs continued to rise. There was a small decline in new work this month, and lower output due to falling sales volumes was also seen throughout August. Input price inflation however was at its lowest rate since May 2021 while prices charged by services providers also rose at their slowest pace for two years.

- A downturn in house building was the main contributor to the construction sector PMI, declining from 51.7 in July to 50.8 in August, despite growth in both civil engineering and commercial work. Job creation also fell on the month off the back of sales volumes and new orders declining at their fastest pace in over three years. As with the other main sectors the rate of purchase inflation has continued to ease.

Consumer demand and sentiment

- Retail sales showed only a partial recovery in August after July's fall of -1.1%, rising by +0.4% during the month. Food stores saw volumes increase by 1.2% after a strong decline of -2.6% in July (which they owed to wet weather impacting falling clothing sales). Non-food store volumes also rose, up by 0.6% while auto fuel sales fell by -1.2%, probably off the back of a sharp increase in petrol prices. On an annual basis, retail volumes fell by 1.4% compared with the same month last year and marking the 17th consecutive month of decline.

- GfK's Consumer Confidence Index rose four points in September to -21, with all five sub-measures increasing compared to August. Falling inflation figures and growing wages have likely helped boost the overall mood of consumers, making this the highest figure since January 2022. However, many are still struggling with the cost of living, especially as interest rates are now at their highest level for 15 years. Confidence in the economic situation over the next 12 months increased the most, rising by six points to -24, while the personal financial situation measure is the strongest at -2, a marked improvement from the -40 recorded last September.

Residential market

Mortgage approvals	Balance of new enquiries	UK house price growth	UK rental growth
49,444	-47%	-5.3%	10.3%

Sources: Bank of England, RICS, Nationwide, HomeLet

Residential sales

Mortgages and transactions

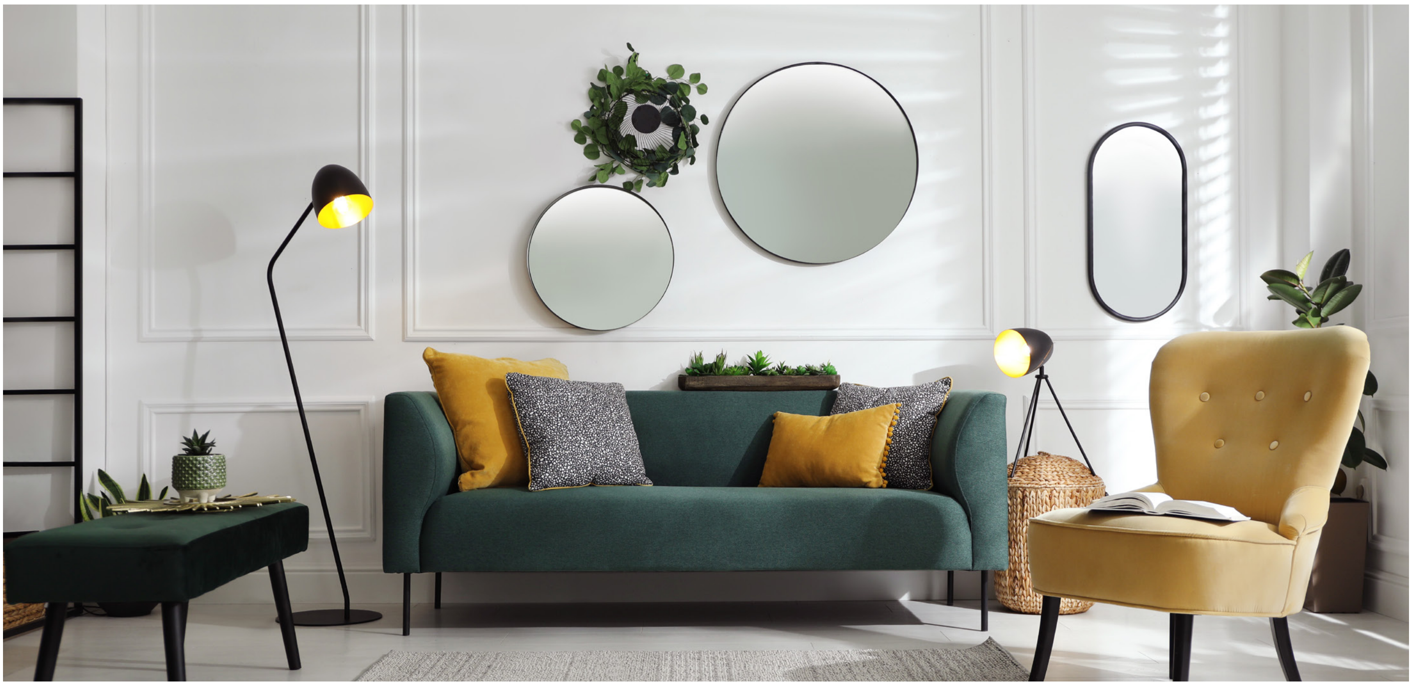
- Mortgage approvals declined in July, falling nearly 10% over June's figure to 49,444. This followed a boost in June when just under 55,000 mortgages were approved marking the highest monthly figure since October 2022. Year to date mortgage approvals are now running nearly a third below where they were this time last year.
- Overall year to date residential transactions are also running below where they were this time last year although they are down by only 20%, again indicating that cash buyers are not as impacted by the wider economic environment (inflation and rising interest rates) as mortgage holders naturally are. Transactions actually rose slightly in July, up 1% over June to 86,500.
- Encouragingly, average mortgage rates appear to be slowly coming down with the five-year fixed rate currently around 5.73% (85% LTV), down from a peak of 6.18% at the end of July and marking the seventh week of consecutive declines (Rightmove / Podium).

Supply and demand

- In terms of demand, new buyer enquiries returned a net balance of -47% in the latest RICS residential market survey, largely unchanged now for the last three months. Newly agreed sales however slipped to its weakest reading since the pandemic at -47% and this falling trend is noted across all parts of the country. Looking ahead, sales expectations remain low at -38% although this is up from last month's figure of 45%.
- Meanwhile on the supply side the new instructions measure continues to deteriorate, moving from -17% last month to -26% now and marking its weakest figure since September 2021. The number of market appraisals also remains very weak recorded with -40% of respondents stating they are undertaking fewer appraisals now than over the last 12 months.
- The number of new properties coming to the market rose by 12% during the first week of September, when compared with each week in August (Rightmove), suggesting that the regular autumn pick-up in activity is underway. This comes off the back of subdued market activity during the summer months, particularly during August when the number of new properties for sale was down by 6% compared with the long-term average.

UK prices and price growth

- August saw a further weakening of house prices according to Nationwide, with annual rates falling by an average of -5.3%, following a -3.8% decline in July. On a monthly basis prices were also found to have fallen by -0.8% according to the bank. This means an average UK house is now £259,153, down by an average of £14,628 from the peak of the market in August 2022.
- Halifax has also recorded the largest year-on-year fall since 2009 with prices falling by an average of -4.6% in the 12 months to August. On a monthly basis prices also fell by a punchy -1.9%. Average UK house prices are now at £279,569, the same level they were at the start of 2022.
- The usual 'back to school' autumn pick up resulted in average asking prices rising slightly on the month (four weeks to mid-September), increasing by 0.4% according to Rightmove's latest house price index report. On an annual basis they continued to decline but only by -0.4%, although this still marks the biggest drop since March 2019, according to the portal.
- As usual the ONS / HM Land Registry house price index reflects a two month lag so annual house price growth in July 2023 reached 0.6% according to their figures. The gradual downward trend however is similar to that of both Halifax and Nationwide as the ONS figure the month prior was 1.7% (year on year). On a monthly basis prices grew by 0.5% with the latest figures showing the average UK house price is £289,824. Interestingly, following a trough in the market in March of this year (£282,548), house prices have risen every month since then.
- The measure for house prices in the latest RICS residential market survey fell to its lowest level since February 2009, at -68%. On a disaggregated basis all parts of the UK returned steep falls in prices. The near-term forward-looking measure continues to slip further into negative territory, at -67%, down from -60% last month. Further ahead, the 12-month price metric remained largely unchanged at -48%, where it has been for the last three months now.



Regional prices and price growth

- The general trajectory of slowing house price growth is evident in almost all our Carter Jonas office locations. West Oxfordshire still reported robust growth though at 7.0%, followed by Oxford at 6.5% but the next highest is Cambridge at just 2.8% annual growth. Locations across Cornwall and Dorset, having seen exceptionally high house price growth over the previous two years, are now experiencing declines, at -1.3% and -1.2% respectively.
- Average house prices across London are also now falling, down by an average of -0.8% year on year. However, some locations are still seeing annual growth. In fact, 16 boroughs posted positive gains in the 12 months to July with Richmond (3.4%), Ealing (3.0%) and Haringey (2.9%) at the top of the table as Kensington and Chelsea (-10.8%), Brent (-4.9%) and Harrow (-4.2%) rounded at the bottom end.

Residential lettings

Supply and Demand

- As has been the ongoing trend for quite some time now tenant demand is still rising according to the latest RICS market survey, with a net balance of +47% of participants finding this. And no change either in the rate of landlord instructions as this continues to fall, with a net balance of -20%.
- Rightmove data mirrors the RICS trend citing that tenant demand is still higher than it has been by historical standards, up 3% over the same period last year according to Rightmove (Rental Trends Tracker, Q2 2023), and 42% higher than in June 2019. On the other hand, the supply of available properties is down considerably, 42% below where it was in 2019, showing just how stark the supply demand imbalance continues to be. Having said that, there are 7% more available properties to rent than the same period one year ago according to their data.
- Zoopla's latest rental market report meanwhile showed that tenant demand is slowing, albeit from a very high base. They note that demand is now 20% lower than a year ago but still 51% higher than the five-year average. The supply of available homes for rent is also now 20% higher than 12 months prior but 30% below the long-run average for this time of year.

Rents and rental growth

- Rightmove reports in their latest rental index (Q2 2023) that average UK rents have risen by 9.3% over the last year, down only very slightly from 9.4% in the previous quarter. This means that average asking rents are now 33% higher than they were prior to the pandemic, equating to an additional £300 per month in rent.
- Annual rent rises are still in double-digits according to HomeLet's latest report, with the average UK rent increasing by 10.3% over the 12 months to August. This marks no change over the previous month which also recorded a 10.3% rise. This means rents are now averaging £1,261 per calendar month (pcm), or £1,051 pcm excluding London. This also means that in just the last two years rents across the UK have increased by nearly 20%, equating to an additional £208 a month.

HM Treasury Forecasts for the UK Economy, September 2023

Sources: HM Treasury Consensus Forecasts (September 2023 and August 2023 (long-term forecasts))

	2023	2024	2025	2026	2027
Official Bank Rate (%)	5.6	4.97	3.85	3.26	2.86
House price inflation (annual, %)	-4.9	-3.1	0.4	3.4	5.6
CPI inflation rate (annual average, %)	4.8	2.7	2.0	1.9	2.1
Unemployment rate (%)	4.3	4.5	4.4	4.5	4.7
GDP (annual, %)	0.4	0.6	1.6	1.9	1.9
Average earnings growth (annual, %)	6.5	3.8	3.0	3.0	3.2

Select Market Indicators, latest versus previous data

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

	Current	Previous	Direction of change
GDP monthly	-0.5%	0.5%	↓
Inflation rate (CPI)	6.7%	6.8%	↓
Interest rate	5.25%	5.25%	↔
Employment rate	75.5%	75.7%	↓
Unemployment rate	4.3%	4.2%	↑
Weekly earnings growth, regular pay (excl bonuses)	7.8%	7.8%	↔
S&P Global / CIPS Manufacturing PMI	43.0	45.3	↓
S&P Global / CIPS Services PMI	49.5	51.5	↓
S&P Global / CIPS Construction PMI	50.8	51.7	↓
Retail sales volume (monthly % change)	0.4%	-1.1%	↑
GfK Consumer Confidence Index	-21	-25	↑
Bank of England mortgage approvals (monthly)	49,444	54,605	↓
Nationwide house price inflation (annual)	-5.3%	-3.8%	↓
Halifax house price inflation (annual)	-4.6%	-2.5%	↓
Official UK House Price inflation (annual)	0.6%	1.7%	↓
Rightmove House Price Index (annual, asking)	-0.4%	-0.1%	↓
HomeLet Rental Index (annual, UK)	10.3%	10.3%	↔
£ Sterling: $ USD	$1.23	$1.30	↓
£ Sterling: € Euro	€1.15	€1.16	↓
Brent Crude Oil (USD)	$92.59	$80.13	↑
Gold (USD)	$1,926.59	$1,962.91	↓
FTSE 100	7,701.86	7,647.31	↑
UK 5 Year Gilt Yield	4.4210	4.4360	↓

Official House Price data, HM Land Registry, July 2023

Sources: HM Land Registry

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
West Oxfordshire	£403,317	-2.9%	7.0%
Oxford	£498,231	3.6%	6.5%
Cambridge	£520,199	1.5%	2.8%
West Berkshire	£414,206	2.0%	2.5%
Leeds	£240,135	2.1%	2.5%
Winchester	£502,097	-1.3%	2.3%
South Oxfordshire	£515,578	2.4%	1.6%
North Northamptonshire	£271,753	1.3%	1.5%
North Yorkshire	£280,067	0.8%	1.0%
Devon	£337,588	0.4%	0.9%
Cambridgeshire	£355,298	0.9%	0.9%
West Northamptonshire	£294,965	0.1%	0.8%
Vale of White Horse	£428,917	2.4%	0.7%
York	£325,497	0.9%	0.4%
Bath and North East Somerset	£432,703	-0.4%	0.4%
Wiltshire	£332,793	-1.4%	0.3%
Somerset	£301,185	1.1%	0.2%
South Cambridgeshire	£444,038	1.0%	0.0%
Suffolk	£295,986	-0.2%	-0.7%
Cornwall	£309,384	0.3%	-1.3%
Dorset	£356,874	-0.4%	-1.3%

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
North East	£163,480	0.5%	2.7%
Yorkshire and The Humber	£212,730	1.5%	2.5%
East Midlands	£249,484	-0.5%	1.9%
North West	£215,648	0.3%	1.0%
England	**£308,633**	**0.4%**	**0.6%**
United Kingdom	**£289,824**	**0.5%**	**0.6%**
West Midlands region	£251,313	0.2%	0.4%
South East	£394,096	0.5%	0.4%
East of England	£352,723	0.4%	0.2%
Wales	£215,632	1.1%	-0.1%
London	£534,265	1.1%	-0.8%
South West	£323,713	-0.2%	-1.0%

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£534,265	1.1%	-0.8%
Prime Central London	£1,149,513	-1.3%	-6.9%
South West London	£733,846	1.1%	1.6%

Official House Price data, HM Land Registry, July 2023

Sources: HM Land Registry

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Richmond upon Thames	£770,107	0.5%	3.4%
Ealing	£547,340	1.1%	3.0%
Haringey	£605,168	-0.7%	2.9%
Bromley	£516,659	1.5%	2.6%
Merton	£584,659	0.1%	1.8%
Bexley	£401,134	1.1%	1.6%
Lambeth	£556,110	3.0%	1.4%
Hillingdon	£460,313	0.9%	1.2%
Havering	£425,055	1.3%	1.2%
Islington	£710,181	0.9%	1.0%
Tower Hamlets	£475,243	-1.7%	0.9%
Wandsworth	£632,895	1.4%	0.9%
Hammersmith and Fulham	£798,537	1.5%	0.5%
Newham	£415,762	-0.2%	0.4%
Hackney	£632,761	0.8%	0.2%
Greenwich	£430,311	2.6%	0.1%
Barnet	£587,570	1.6%	-0.4%
Enfield	£444,920	0.7%	-0.6%
Sutton	£434,203	0.3%	-0.6%
Southwark	£546,212	0.5%	-0.6%
Croydon	£415,491	0.9%	-0.8%
London	**£534,265**	**1.1%**	**-0.8%**
Kingston upon Thames	£543,811	-0.8%	-0.8%
Lewisham	£454,520	1.5%	-1.0%
Hounslow	£442,511	-1.9%	-1.0%
Barking and Dagenham	£343,291	-1.9%	-1.2%
Redbridge	£462,849	0.4%	-1.6%
Camden	£828,389	-4.4%	-1.8%
Waltham Forest	£496,615	-2.1%	-2.6%
City of Westminster	£954,356	-3.0%	-2.9%
Harrow	£510,710	0.3%	-4.2%
Brent	£523,184	-2.8%	-4.9%
Kensington And Chelsea	£1,344,669	0.0%	-10.8%
Outer London	£484,425	0.5%	0.1%
Inner London	£618,356	0.2%	-0.5%

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HomeLet Rental Index, August 2023

Source: HomeLet Rental Index

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
Scotland	£985	1.2%	14.4%
Greater London	£2,145	1.7%	13.0%
West Midlands	£938	1.2%	10.9%
UK	**£1,261**	**1.4%**	**10.3%**
North East	£655	3.0%	10.1%
North West	£988	1.2%	9.7%
South East	£1,339	1.2%	9.4%
UK (excluding London)	**£1,051**	**1.4%**	**9.4%**
East Of England	£1,190	1.8%	9.1%
Yorkshire & Humberside	£848	1.4%	9.0%
Wales	£842	0.5%	8.2%
East Midlands	£850	1.2%	7.7%
South West	£1,137	0.6%	6.0%
Northern Ireland	£841	1.8%	5.8%

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.

Residential Research

Leslie Schroeder
Head of Residential Research
020 7529 1538
leslie.schroeder@carterjonas.co.uk

020 7518 3200
One Chapel Place, London W1G 0BG

@carter_jonas_homes

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