Carter Jonas

Residential
Update and Outlook

October 2023

Market Overview

While economic output grew by +0.2% in August this follows a fall of -0.6% the previous month and is still indicative of an economy that is just bumping along. Having said that, the ONS recently upwardly revised UK GDP growth since prior to the pandemic, now showing the UK economy is 1.8% larger than it was in Q4 2019, a big jump compared with the previous estimate of it being -0.2% smaller. With this backdrop, as well as elevated interest rates and inflation well above the 2% target, it is perhaps a little surprising the latest **CFO survey** *from Deloitte shows the level of optimism among CFO's rose for the third consecutive quarter and is now slightly above the long-term average. According to the survey a net 9% are more optimistic about their business's financial prospects compared with three months ago.*

The general direction of travel in the residential market remained largely unchanged this month, in both the sales and lettings markets. Nationwide and Halifax recorded annual house price declines, but on a monthly basis there was almost no change. The fall in mortgage approvals in August is likely due to a combination of factors, including buyers waiting for interest rates to come down and lenders being increasingly cautious with their lending criteria. In the lettings market, tenant demand remains elevated, and with no significant change to the low levels of available stock, rental growth rates were again in double digits this month.

Key Points

- *GDP grew by 0.2% in August following a (revised) fall of -0.6% the month before. The education strikes that impacted output in July were partly reversed with no action in August which helped boost the services sector to growth of 0.4%.*
- *September's retail sales volumes fell by a disappointing -0.9% during the month, with the ongoing cost-of-living crisis and warmer weather negatively impacting overall volumes.*
- *Consumer confidence has also dipped, according to GfK's recent report. Down nine points to -30 and the Major Purchase Index down a sharp 14 points, suggesting that consumers are once again feeling nervous about spending.*
- *There was no change in inflation in September, remaining stable at 6.7%. Food prices are still stubbornly high (albeit this rise is slowing) but with prices growing by 12.1% over the last year this is the largest upward contribution to inflation this month.*
- *Job vacancies again fell for the 15th consecutive quarter, suggesting that hiring has continued to slow.*
- *Wage growth surpassed inflation for the first time in over two years, rising by 7.8% annually to August 2023. Wage growth may finally be passed its peak although it is likely to slow only very gradually over the coming months.*
- *All three Purchasing Managers' Indices (PMI's) were in contraction during September, with all three below '50'. The construction sector in particular contracted sharply as housebuilding saw its steepest fall since 2009.*
- *Mortgage approvals fell to a seven-month low of just over 43,000 in August, down by over 6,000 from July. The fall in approvals is hardly surprising as lenders remain cautious with affordability criteria and buyers hold back hoping for interest rates to ease.*
- *In the 12 months to September house prices fell by -4.7% according to Halifax, and -5.3% from Nationwide. On the plus side, neither of these indices moved much over the month with Nationwide reporting no change over August's figures.*
- *Yet again no change in the private rented sector's ongoing discrepancy between supply and demand. Rental growth is still in double-digit territory according to HomeLet (10.1%) and the RICS residential survey continues to report a decline in landlord instructions.*

Economic backdrop

Monthly GDP	CPI inflation	Interest rate	Wage growth
+0.2%	6.7%	5.25%	7.8%

Sources: Bank of England, ONS

The Macroeconomy

- Monthly GDP is estimated to have grown by 0.2% in August, up from the sharp drop of -0.6% in July (downwardly revised). Services output growth of 0.4% was the main contributor to the growth in GDP and this was largely attributed to the education sector recovering from strike action in July. Meanwhile production output fell by -0.7% in August following a fall of -1.1% the month before. Finally, the construction sector also suffered a contraction during the month with output in this sector down -0.5%.
- CPI inflation rose by 6.7% in the 12 months to September, marking no change over August's figure and slightly above the expectation of 6.6%. September saw softer price rises in the food and non-alcoholic beverage category and furniture and household goods compared with August, however this was partially offset by motor fuel increases. On a monthly basis, CPI inflation rose by 0.5% in September, the highest rise since May.
- There is no Monetary Policy Committee meeting in October, so Bank Rate remains 5.25%. At the next meeting on 2 November, it is expected that given the small GDP growth in August (latest data) and that the previous rate hikes are still not fully felt, rates will again be held at 5.25%. Having said that, inflation is still significantly above the 2% target which could complicate their decision-making process.

Labour and employment

- Job vacancy figures continue to fall, down by 4.2% / 43,000 in the three months to September over the previous quarter (April to June 2023). Over the year, total vacancies are down 256,000 although this is still above pre-pandemic levels.
- Annual growth in regular pay (excluding bonuses) was 7.8% in the three months June to August 2023, relatively unchanged over recent figures (7.9% the month before) and still one of the highest growth rates since comparable records began. Including bonuses, the figure was 8.1% but this was again impacted by one-off payments to NHS and civil service employees during those months.

Market indicators

- September's S&P Global / CIPS Manufacturing PMI rose slightly to 44.2, up from the over three-year low of 43.0 in August but remains one of the weakest readings over the past 14 years. Output declined for the seventh month in a row amidst a continuing fall in demand due to the cost-of-living crisis and a weak overseas market. Employment was again down, falling for the 12th month in a row amid falling business confidence. The rate of input costs declined at the same rate as in August which was a seven-year record.
- The UK Services PMI moved to 49.3 in September, down very slightly from August's 49.5 marking the lowest figure since January. New work orders decreased while export sales fell for the first time in almost a year. Service sector companies recorded a decline in staff numbers for the first time in 30 months with the rate of job declines the steepest since the start of 2021. Input price inflation again eased while the rate of prices charged also eased to the weakest level for 29 months.
- The UK Construction PMI dropped sharply in September, down to 45.0 from 50.8 in August and is now in contraction territory. This is the fastest rate of decline since May 2020 with total new business activity decreasing for the third time in four months. Residential work was the weakest sector followed by civil engineering projects. Outside of the pandemic period this marks the steepest fall in house building since April 2009, attributed to the rising cost of borrowing and high building costs coupled with weak demand. Despite this, construction firms are predicting a rise in output over the next 12 months with hopes of rising consumer demand and longer-term expansion plans.

Consumer demand and sentiment

- Retail sales volumes declined -0.9% in September (month on month), wiping out the +0.4% gain seen in August. Sales at non-food stores fell the most, down -1.9% with many retailers citing the cost-of-living crisis and the unusually warm weather during the month which reduced the sale of autumn-wear clothing. Food store sales rose by +0.2% and fuel sales increased by +0.8%.
- Meanwhile GfK's latest Consumer Confidence Index also points to consumers who are less willing to spend as the overall index fell nine points to -30 in October. All five of the sub-measures fell on the month with the Major Purchase Index dropping sharply by 14 points to -34. Clearly uncertainty about the economy is still weighing on minds with the sub-index over the last 12 months at -54 and the forward-looking index at -32.

Residential market

Monthly mortgage approvals	Balance of new enquiries	UK annual house price growth	UK annual rental growth
43,354	-39%	-5.3%	10.1%

Sources: Bank of England, RICS, Nationwide, HomeLet

Residential sales

Mortgages and transactions

- Bank of England mortgage approvals data shows overall mortgage levels fell again in August, down to 43,453 on the month. Year to date mortgages are around 27% below their long-term average for this time of year and are 35% below the long-term monthly average of just over 66,300 per month.
- Total transaction volumes increased during August, rising for the third month in a row to just over 87,000 sales. In slight contrast to mortgage figures, this level is just 14% below the long-term monthly average, once again indicating that cash buyers are still very active in the market whereas mortgage holders are clearly holding back.
- Average mortgage rates are still falling with the latest five-year fixed rate currently around 5.49% (85% LTV). This is 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

- The balance for new buyer enquiries series from the RICS residential market survey came in at -39% during September, and while this is certainly still showing weak demand it is less negative than last month's figure of -46%. There was a similar trend in the balance of agreed sales figure which, at -37%, is also less negative than August's figure of -46%. There was a net balance of +3% for sales expectations over the coming 12 months, much more stable than previous figures (-5% in August).
- Staying with the RICS survey, on the supply side the balance of new instructions has fallen again, down for the third month in a row at -17% in September. The RICS reports that the average number of available properties on estate agents' books remains at 38, where it has been since July.
- Rightmove reports that demand for homes is still robust with the number of buyers enquiring per each available property is 8% higher than the 'normal' market in 2019. Despite this, the number of agreed sales is down 17% compared with 2022 with the property portal suggesting that sellers who are not willing to adjust their price expectations are finding it difficult to shift their property.

UK prices and price growth

- September saw house prices remain unchanged over August, according to Nationwide, while annual growth remained in negative territory but unchanged at -5.3%. The bank's report goes into some detail on sales of different property types and notes that transactions of flats are holding up better than any other, suggesting that buyers are looking to smaller, more affordable properties to purchase at a time when interest rates remain elevated.
- Similarly, Halifax also reported little change in the direction of price growth across the UK with average prices falling by -4.7% annually, similar to -4.6% last month. On a monthly basis prices were found to have declined by a modest -0.4%.
- Rightmove reports that average asking prices are down by -0.8% over the last 12 months, steeper than -0.4% last month. Having said that, with an average asking price of £368,231 this is still up by 0.5% over the previous month, following growth of 0.4% in September.
- UK house prices grew by just 0.2% annually in August, according to ONS / HM Land Registry. This follows a 0.7% rise in July (revised) and on a monthly basis reflects growth of 0.3%. This marks the fifth consecutive month of month-on-month house price growth, with average prices now 3.2% above the trough of the market in March 2023.
- Finally, the RICS residential market survey returned a net balance of -69%, reflecting falling house prices. This figure is virtually unchanged from the previous month suggesting that the pace of house price falls is slowing or at least stabilising. Looking ahead and while the net balance of contributors noting prices will continue to fall over the next three months is -48%, this is much less negative than the -65% reading last time.

Regional prices and price growth

- According to Nationwide's quarterly regional breakdown all regions of the country saw house prices fall this quarter, with prices in the South West declining the most at -6.3% year-on-year followed by East Anglia (-5.6%) and the East Midlands (-5.5%). House prices in London were found to have declined by -3.8% over the year while Northern Ireland was top of the table with the average house price declining by -1.8%.
- According to the August regional data from ONS / HM Land Registry five regions reported house price growth over the year to August, including the North East (+3.6%), Yorkshire and the Humber (+2.2%) and the West Midlands (+1.1%). On the other hand the East of England reported price declines of -1.6% followed by London at -1.4%.

- (Note that ONS/HM Land Registry figures lag behind Nationwide and Halifax data by six to eight weeks. Additionally, the Halifax and Nationwide house price methodologies are based on their own mortgage approvals data, while the ONS considers all sales transactions after they have taken place. As a result, the ONS data may currently reflect the difference between cash sales and mortgage sales more starkly).
- In our Carter Jonas tracked areas there were just five locations out of 21 that recorded house price falls (annually). Three of the five areas are in the South West (Cornwall, Dorset and Somerset) while interestingly all of our Oxfordshire tracked areas experienced some 'strong' price growth of between 4.5% in the Vale of White Horse to 6.8% in Oxford itself.
- London has now seen three consecutive months of annual price declines, with an average fall this month of -1.4% (12 months to August). The collective outer London boroughs averaged price declines of -0.2% compared with a fall of -1.9% in the inner London boroughs. Yet again both Kensington & Chelsea and the City of Westminster were bottom of the table. Over the last five years average prices have fallen by an average of -3.3% in Westminster and -4.2% in Kensington & Chelsea.

Residential lettings

Supply and Demand

- There has been little change in the ongoing trends in the lettings market with the RICS residential market survey noting that a net balance of +43% of respondents saw a further increase in tenant demand during September. This comes at the same time as landlord instructions continue to fall with a net balance of -24% of participants noting a decline, down slightly from -20% in August.
- Rightmove's Q3 Rental Trends Tracker on the other hand shows that while still very much uneven, the supply and demand imbalance within the market is improving when compared with last year. Their report finds that demand has come down by around 17% over 2022 while available supply is up by 14%.
- Despite this, Rightmove goes on to report that the average rental property across Britain is receiving 25 enquiries from prospective tenants. Compare this with an average of just eight enquiries per property prior to the pandemic in 2019 and the discrepancy is very clear.

Rents and rental growth

- Rental growth remains highly elevated again this quarter, according to Rightmove, with rents growing annually by around 10.0% across the UK (Q3 2023). This is up over the previous quarter where rents grew by an average of 9.3% and is the 15th consecutive quarter that asking rents have hit record growth rates. In London, rents also increased by another record rate, rising by an average of 12.1% over the year.
- According to HomeLet's September rental price index rents across the UK rose by an average of 10.1% over the last 12 months. UK rents are now circa £1,276 per calendar month and £1,061 pcm excluding London. Scotland recorded the highest rate of growth again this month at 13.3% annually, the sixth month in a row that Scotland has come top of the table for growth rates and the 20th consecutive month of double-digit rental growth in the country.

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 (%)	5.3	4.7	3.85	3.26	2.86
House price inflation (annual, %)	-4.9	-1.7	0.4	3.4	5.6
CPI inflation rate (annual average, %)	4.5	2.6	2.0	1.9	2.1
Unemployment rate (%)	4.4	4.5	4.4	4.5	4.7
GDP (annual, %)	0.5	0.5	1.6	1.9	1.9
Average earnings growth (annual, %)	6.7	3.5	3.0	3.0	3.2

Select Market Indicators, latest versus previous data

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

	Current	Previous	Direction of change
GDP monthly	0.2%	-0.6%	↑
Inflation rate (CPI)	6.7%	6.7%	↔
Interest rate	5.25%	5.25%	↔
Weekly earnings growth, regular pay (excl bonuses)	7.8%	7.9%	↓
S&P Global / CIPS Manufacturing PMI	44.2	43.0	↑
S&P Global / CIPS Services PMI	49.3	49.5	↓
S&P Global / CIPS Construction PMI	45.0	50.8	↓
Retail sales volume (monthly % change)	-0.9%	0.4%	↓
GfK Consumer Confidence Index	-30	-21	↓
Bank of England mortgage approvals (monthly)	43,354	49,444	↓
Nationwide house price inflation (annual)	-5.3%	-5.3%	↔
Halifax house price inflation (annual)	-4.7%	-4.6%	↓
Official UK House Price inflation (annual)	0.2%	0.7%	↓
Rightmove House Price Index (annual, asking)	-0.8%	-0.4%	↓
HomeLet Rental Index (annual, UK)	10.1%	10.3%	↓
£ Sterling: $ USD	$1.22	$1.23	↓
£ Sterling: € Euro	€1.15	€1.15	↔
Brent Crude Oil (USD)	$93.09	$92.59	↑
Gold (USD)	$1,980.54	$1,926.59	↑
FTSE 100	7,461.69	7,701.86	↓
UK 5 Year Gilt Yield	4.7180	4.4210	↑

Official House Price data, HM Land Registry, August 2023

Sources: HM Land Registry

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
Oxford	£508,305	1.4%	6.8%
West Oxfordshire	£405,871	1.0%	6.4%
South Oxfordshire	£540,999	4.4%	4.6%
Vale of White Horse	£442,866	2.9%	4.5%
Leeds	£244,233	1.8%	2.7%
York	£332,879	2.0%	2.7%
North Yorkshire	£284,254	2.3%	2.3%
West Berkshire	£418,997	2.5%	1.6%
Bath and North East Somerset	£439,121	1.5%	1.4%
Suffolk	£302,832	2.3%	1.1%
Cambridgeshire	£360,170	1.2%	0.8%
Devon	£343,302	1.6%	0.8%
South Cambridgeshire	£453,195	1.7%	0.8%
Winchester	£504,986	-2.1%	0.7%
West Northamptonshire	£296,858	1.0%	0.2%
Wiltshire	£338,067	1.4%	0.2%
Cambridge	£513,078	-0.8%	-0.4%
Somerset	£300,601	0.0%	-0.4%
North Northamptonshire	£269,635	-0.4%	-0.4%
Cornwall	£314,933	1.9%	-0.5%
Dorset	£357,874	0.2%	-2.3%

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
North East	£165,366	1.3%	3.6%
Yorkshire and The Humber	£213,264	0.4%	2.2%
West Midlands region	£253,519	0.5%	1.1%
East Midlands	£250,818	0.6%	0.5%
North West	£215,791	0.0%	0.4%
United Kingdom	**£291,044**	**0.3%**	**0.2%**
England	**£309,616**	**0.2%**	**0.0%**
Wales	£216,726	-0.1%	-0.1%
South East	£393,417	-0.1%	-0.6%
South West	£328,413	1.2%	-1.1%
London	£535,597	-0.1%	-1.4%
East of England	£350,728	-0.7%	-1.6%

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£535,597	-0.1%	-1.4%
Prime Central London	£1,154,543	-1.1%	-7.8%
South West London	£727,899	-0.7%	-2.0%

Official House Price data, HM Land Registry, August 2023

Sources: HM Land Registry

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Haringey	£629,507	1.7%	5.8%
Hounslow	£466,627	3.4%	3.7%
Greenwich	£440,716	2.8%	2.1%
Merton	£592,471	1.5%	1.9%
Richmond upon Thames	£776,521	1.3%	1.4%
Ealing	£542,386	0.3%	1.2%
Camden	£869,066	3.3%	1.2%
Brent	£562,572	5.0%	0.7%
Redbridge	£488,105	5.9%	0.5%
Bromley	£511,635	0.3%	0.5%
Havering	£423,796	0.0%	0.5%
Hillingdon	£461,581	1.2%	0.5%
Barking and Dagenham	£349,371	1.7%	0.3%
Lambeth	£556,966	1.5%	0.2%
Barnet	£598,661	2.1%	0.0%
Lewisham	£466,920	2.5%	-0.2%
Kingston upon Thames	£548,778	1.4%	-0.5%
Southwark	£550,323	0.5%	-0.5%
Tower Hamlets	£464,536	-2.4%	-0.8%
Newham	£406,109	-1.8%	-1.4%
London	**£535,597**	**-0.1%**	**-1.4%**
Enfield	£443,892	-0.4%	-1.6%
Bexley	£393,738	-1.6%	-1.8%
Hackney	£632,099	-2.6%	-1.9%
Croydon	£416,795	1.0%	-2.1%
Islington	£700,036	-2.1%	-2.7%
Wandsworth	£627,901	-0.3%	-2.8%
Sutton	£427,744	-0.4%	-2.9%
Waltham Forest	£501,675	0.7%	-4.1%
Harrow	£511,271	0.0%	-4.3%
Hammersmith and Fulham	£779,274	-2.9%	-4.6%
City of Westminster	£950,206	-2.9%	-5.2%
Kensington And Chelsea	£1,358,879	0.2%	-10.4%
Outer London	£488,791	1.2%	-0.2%
Inner London	£619,166	-0.3%	-1.9%

HomeLet Rental Index, September 2023

Source: HomeLet Rental Index

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
Scotland	£977	-0.8%	13.3%
Greater London	£2,179	1.6%	12.0%
North West	£1,006	1.8%	10.4%
Yorkshire & Humberside	£866	2.1%	10.3%
UK	**£1,276**	**1.2%**	**10.1%**
East Of England	£1,208	1.5%	9.9%
South East	£1,359	1.5%	9.9%
North East	£668	2.0%	9.7%
UK (excluding London)	**£1,061**	**1.0%**	**9.3%**
West Midlands	£933	-0.5%	8.7%
Northern Ireland	£876	4.2%	8.4%
East Midlands	£859	1.1%	8.2%
Wales	£852	1.2%	7.3%
South West	£1,139	0.2%	5.2%

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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