

# Residential Update and Outlook

November 2023

## Market Overview

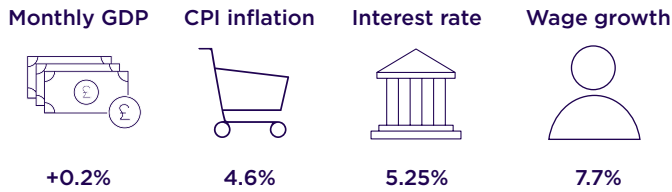
*Inflation eased at a faster pace than expected this month, moving sharply from 6.7% in September to 4.6% in October. While this decline was primarily driven by Ofgem's reduction in the energy price cap, both services inflation and, crucially, core inflation, also slowed by more than had been anticipated. The Bank of England maintained interest rates at 5.25% at their early November meeting, and with these subsequent better-than-expected inflation figures, they are now anticipated to hold rates steady again at their December meeting, before potentially cutting rates sometime next year.*

*There was a surprise upward movement in house prices this month, with Nationwide and Halifax figures showing increases of +0.9% and +1.0%, respectively. This meant that on an annual basis, although both measures showed overall declines, they were by less than the month before. Despite this positivity, the price increase is largely being attributed to the lack of stock on the market rather than any substantial increase in demand. In the lettings market, there is again little in the way of change, with demand far outstripping supply, but the market is at least showing some signs of stabilisation.*

## Key Points

- Although monthly GDP grew by 0.2% in September on a quarterly basis there was no growth between July and September. The UK economy continues to be subdued with a forecast annual growth of just 0.3% by the end of the year.
- This month the wet weather seems to have contributed to falling retail sales, with figures showing volumes down -0.3% in October following a -1.1% decline the month before.
- The GfK Consumer Confidence Index made a surprise rally in November, moving up six points to -24. All five sub-measures rose in the latest reading with the Major Purchase Index rising the most, up 10 points to -24.
- There was a sharp fall in the rate of inflation in October, to 4.6% from September's figure of 6.7%. This is the lowest rate in two years and well below the peak of over 11% in October last year.
- Interest rates were held at 5.25% earlier in November, where they have been now for five months. Rates are widely expected to start to fall early next year.
- Job vacancies have fallen now for the 16th consecutive month. Payrolled employee numbers though rose again in October while the unemployment rate remained unchanged at 4.2%.
- Earnings growth moved down very slightly to 7.7% annually (from 7.8% the previous month), but this still marks one of the highest levels ever recorded.
- All three Purchasing Managers Indices (PMIs) remain below the magic '50' mark in October although each of them actually rose very slightly over September. Subdued consumer demand, uncertainty surrounding the wider economy and high interest rates are impacting all areas of the market.
- Overall transaction volumes remained relatively stable month on month, at just over 85,000 sales. Mortgage approvals however fell nearly 5% over August to just over 43,000 approvals in September.
- Both Nationwide and Halifax recorded surprise monthly house price rises in October. Both indices also recorded annual price falls that were less pronounced than the month before.
- ARLA PropertyMark recorded a sharp decline in the average number of new tenants registered per branch in September. While this may be due to seasonal shifts it is still the lowest number since February.
- In October HomeLet recorded the lowest annual rental growth rise since September 2022; but at 9.6% this is still exceptionally high by historic standards.

## Economic backdrop



Sources: Bank of England, ONS (wage growth regular pay, excl bonuses)

## The Macroeconomy

- GDP grew by 0.2% in September, up from (a revised) 0.1% monthly growth in August. On a quarterly basis though GDP showed no growth in the three months to September. This follows Q2 growth of 0.2% and 0.3% in the first three months of the year. There was a 0.1% fall in the services sector which was offset by an equivalent increase of 0.1% in construction this quarter, while production output was broadly flat.
- The pace of inflation slowed sharply this October, at 4.6% over the year, down from 6.7% the month before and well below the peak of 11.1% in the same month last year. This marks the slowest rate of inflation since October 2021 with the largest downward contribution coming from a fall in energy prices due to Ofgem lowering the cap on household bills. The cost of housing and utilities, including gas and electricity, fell by the most since January 1989.
- The Bank of England Monetary Policy Committee held Bank Rate at 5.25% this month, as was largely anticipated. Off the back of a slight rise in GDP recently and an expected sharp slowdown in the pace of inflation over the coming months, the MPC clearly felt at least confident enough to hold rates. Their meeting notes however show that easing inflation does not necessarily mean interest rates will soon fall, and Bank Rate could still increase if needed.

## Labour and employment

- The number of payrolled employees rose by 33,000 in October, to 30.2 million, while the number of job vacancies fell by 58,000 in the three months to October. This is the 16th consecutive reading of falling job vacancies and overall the figure is down 5.7% from the previous quarter. The industry sector which shows the largest decline in vacancies this year is from the professional, scientific and technical activities, down 35,000 over the same time last year.
- Overall employment figures show a decrease of 0.1 percentage points this quarter, to 75.7%, although this marks no change from last month. Similarly, the unemployment rate remains unchanged over last month at 4.2%.

- As for wage growth, average earnings were found to have risen by 7.7% annually, in the three months to September. This is down slightly from 7.8% the month before but still amongst the highest annual growth rates since records began. Annual growth for the public sector was estimated as 7.3% marking the highest-ever rate for this sector while the private sector posted 7.8% wage growth.

## Market indicators

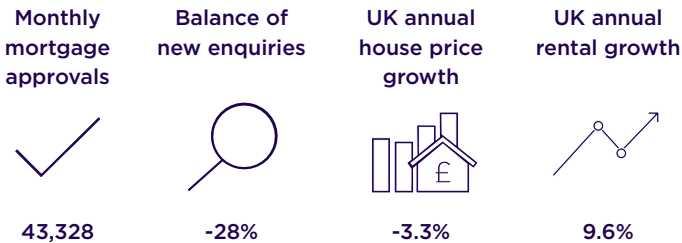
- The UK Manufacturing PMI rose only very slightly in October, moving to 44.8 from September's 44.3, with production declining for the eighth consecutive month while new orders fell for the seventh month in a row. Once again purchase prices declined which helped reduce the costs of materials, although selling prices also decreased, for the fourth month in the last five. Consumer uncertainty surrounding the economy, and the cost-of-living crisis generally, helped contribute to falling business optimism, which is at its lowest point in ten months.
- Meanwhile the S&P Global/CIPS UK Services PMI also moved marginally upwards to 49.5 in October, from 49.3 in September. This is now the third consecutive month where the figure has been below the '50' expansion threshold. There was again subdued consumer demand with cost-of-living pressures and rising interest rates cited as exerting the most downward pressure. Job cuts in the sector continued while new orders fell, and the level of business optimism was the lowest it has been all year.
- As with the two other PMIs, the UK Construction PMI rose only very slightly in October, up 0.6 points over the previous month, to 45.6. This still marks the second lowest reading since May 2020 with housebuilding in particular showing clear signs of contraction amidst a lack of demand and cutbacks to new projects as a result. Civil engineering work also fell, at the sharpest rate since July 2022 while commercial work showed stabilisation on the month.

## Consumer demand and sentiment

- Latest estimates indicate retail sales volumes fell by -0.3% in October, following a (revised) decline of -1.1% in September. The impact of bad weather during the month meant auto fuel sales fell by 2% while food store sales were down -0.3%. Non-food store sales also declined, down -0.2%, disaggregated clothing stores saw volumes fall -0.9% and household goods stores were down -1.1%. Annually, retail sales have fallen by -2.7%.
- Consumer confidence rose in the latest GfK Index reading, increasing six points to -24 with all five sub-measures marking an improvement. The index itself has been tumultuous over the last six months with dips and falls throughout, an indication of the wider uncertainty in the economy. The Major Purchase Index rose by 10 points

to -24 while the Personal Financial Situation measure (over the next 12 months) is still the 'most positive' reading at -3. This compares well to the same month last year when this sub-measure was -29.

## Residential market



Sources: Bank of England, RICS, Nationwide, HomeLet

## Residential sales

### Mortgages and transactions

- Following an upwardly revised figure for August, Bank of England's mortgage approvals in September declined slightly, down 4.6% to 43,328 overall. This marks the third consecutive month of falling approvals with year-to-date mortgages around 30% below the same time last year.
- Total transactions meanwhile stayed relatively stable between August and September, with latest provisional figures showing there were 85,610 sales during September, marking nearly no change over August. This means that cash buyers have made up around 45% of all transactions so far this year, compared with a long-term average of 33%.
- Mortgage rates declined yet again to an average of 5.35% (5 year, 85% LTV), down from 5.49% one month ago and 6.18% at the peak in July (Rightmove / Podium).

### Supply and demand

- For the 18th month in a row, the latest RICS new buyer enquiries balance was again in negative territory although at -28% this is well up from last month's figure of -37% and the 'least negative' since May. There was a similar trend for agreed sales where the figure of -25% is still fairly negative but far less so than -45% and -35% recorded in August and September, respectively. Looking ahead the net balance for short-term sales expectations returned -20% which suggests little change is expected, while a balance of zero was returned over the 12-month horizon which indicates stability.
- On to the more pressing problem of available supply, and the October RICS measure for new instructions shows this has also continued to decline, although with a figure of -7% it is less negative than September. Evidence however points to little change in supply ahead as respondents note that the number of market appraisals being undertaken is still well below where it was this time last year.

- Rightmove's latest information finds that the number of sales agreed is now down 10% over 2019's more normal market level. This is an improvement however on last month which was 15% below the normal level. Studio and one-bed property sales are just 7% below 2019's level while agreed sales for four+ bedroom properties are 14% behind the 'normal' 2019 level.

### UK prices and price growth

- UK house prices rose 0.9% month on month this October, according to Nationwide. On an annual basis though they are still down by -3.3% but this is a marked improvement from the -5.3% annual fall in both August and September this year. The small uptick in pricing this month is likely affected by the low available supply and the lack of forced sales, which would usually place far more downward pressure on pricing.
- The Halifax house price index figures for October show a similar trend to Nationwide, with monthly house prices increasing by 1.0% in October. This follows a fall of -0.3% the month before. On an annual basis property prices fell by -3.2%, up from -4.5% in September.
- Zoopla's October house price index report found that house prices declined by an average of -1.1% over the year. Compare this with the +9.2% at the same time last year. They go on to note that southern England has seen the greatest price reductions but that this declining trend is now spreading across almost all areas of the country.
- According to Rightmove, asking prices fell again, down by an average of -1.3% over the last year and a hefty -1.7% in just the last month (November). Rightmove reports this is the largest November drop in asking prices since 2018 and follows two months of increases.
- HM Land Registry (ONS) official house price data meanwhile shows an annual decline of -0.1% across the UK, down from +0.2% the month before. On a monthly basis prices fell by -0.5%, leading to an overall average price of £291,390. This is the first month since March this year where average prices have fallen. The peak of the market was exactly one year ago and so average prices are just -0.1 below that. Compared with the start of the latest cycle (February 2020), prices are 26% higher.
- Again this month the RICS residential survey returned a very negative net balance figure of -63% for house prices, slightly less negative though than September which was -69%, albeit it is still reflecting falling prices. Looking ahead, falling prices are anticipated by respondents across both the shorter three month and longer 12 month horizons. This is the case for all regions apart from both Scotland and Northern Ireland where the consensus is a rise in house prices over the next 12 months in these two countries.



## Regional prices and price growth

- On a regional basis the North East has seen the 'highest' house price growth at 1.6% annually, followed by the North West (0.6%) and the West Midlands at 0.5%. Areas across the west and south east are all at the bottom of the table with Wales showing the biggest declines of -2.7% annually. This follows nearly two years where house prices in the country were rising at double-digit rates (Feb 2021 – Oct 2023). Compared with the start of the pandemic in February 2020 average house prices in Wales are now 30% higher.
- Our Carter Jonas tracked locations show a mixed bag of price movement, clearly indicating the uncertainty currently within the market. West Oxfordshire for example has posted a nearly 5% annual rise followed by Bath and NE Somerset at 3.8%. On the other hand, once again areas in the south west are experiencing price corrections with Cornwall at -1.7% annually, Devon showing average price falls of -2.1% and -2.6% in Dorset.
- In London there is not much change in the trajectory the region has seen over the last few years: most of the traditionally expensive, inner London and prime areas are showing price declines while many of the more 'affordable' inner and outer London locations are experiencing more robust figures and in some cases growth. Tower Hamlets house prices have grown by an average of 6.4% annually followed by Hounslow at 4.9%, Lewisham (4.3%) and Redbridge (4.1%).

## Residential lettings

### Supply and Demand

- The latest RICS residential market survey reading for tenant demand over the last three months returned a net balance of +33% noting an increase. This is still

very positive but is the 'lowest' reading since June 2021 suggesting that the rise in demand may be slowing. On the other hand, landlord instructions fell once again, down by -18% (from -24% last month).

- ARLA reports in their latest Housing Insight report (September) that the number of new prospective tenants registered per agent branch fell significantly in September to 96, from an average of 121 in August. While this may be due to seasonal shifts it is still the lowest rate since February.
- Stock levels meanwhile remained steady at approximately 11 available rental properties per branch, where it has stood now for the last three months and is up from an average of 9 per branch over the preceding three months (ARLA, September). Both trends point to a possible softening of the dramatic supply demand imbalance over the last two years although it is far too early to tell if this will be ongoing.

### Rents and rental growth

- HomeLet recorded October's UK annual rental growth at 9.6% on average, the lowest rise since September 2022. On a monthly basis growth was recorded as 0.5% meaning rents now average £1,283 per calendar month (pcm). Once again Scotland topped the list with the highest rate of growth at 12.0%, largely a factor of their legislated rental cap whereby landlords can only raise rents by more than 3% on new tenancies.
- Looking ahead, the RICS market survey found a balance of +53% of participants foresee rents rising over the next three months. Over the longer term 12 months, rents are projected to rise by an average of 4% annually.



## HM Treasury Forecasts for the UK Economy, November 2023

Sources: HM Treasury Consensus Forecasts (November 2023)

	2023	2024	2025	2026	2027
Official Bank Rate (%)	5.3	4.7	4.06	3.29	3.11
House price inflation (annual, %)	-3.3	-5.1	-2.2	2.1	5.0
CPI inflation rate (annual average, %)	4.6	2.5	1.9	2.0	2.1
Unemployment rate (%)	4.3	4.6	4.7	4.8	5.0
GDP (annual, %)	0.5	0.4	1.4	1.7	1.6
Average earnings growth (annual, %)	6.4	3.4	3.1	3.3	3.4

## Select Market Indicators, latest versus previous data

Sources: ONS (unless otherwise indicated) (final six indicators retrieved 24 November)

	Current	Previous	Direction of change
GDP monthly	0.2%	0.1%	↑
Inflation rate (CPI)	4.6%	6.7%	↓
Interest rate	5.25%	5.25%	↔
Employment rate	75.7%	75.7%	↔
Unemployment rate	4.2%	4.2%	↔
Weekly earnings growth, regular pay (excl bonuses)	7.7%	7.8%	↓
S&P Global / CIPS Manufacturing PMI	44.8	44.3	↑
S&P Global / CIPS Services PMI	49.5	49.3	↑
S&P Global / CIPS Construction PMI	45.6	45.0	↑
Retail sales volume (monthly % change)	-0.3%	-1.1%	↑
GfK Consumer Confidence Index	-24	-30	↑
Bank of England mortgage approvals (monthly)	43,328	45,447	↓
Nationwide house price inflation (annual)	-3.3%	-5.3%	↑
Halifax house price inflation (annual)	-3.2%	-4.5%	↑
Official UK House Price inflation (annual)	-0.1%	0.2%	↓
Rightmove House Price Index (annual, asking)	-1.3%	-0.8%	↓
HomeLet Rental Index (annual, UK)	9.6%	10.1%	↓
£ Sterling: \$ USD	\$1.25	\$1.22	↑
£ Sterling: € Euro	€1.15	€1.15	↔
Brent Crude Oil (USD)	\$81.29	\$93.09	↓
Gold (USD)	\$1,993.40	\$1,980.54	↑
FTSE 100	7,454.18	7,461.69	↓
UK 5 Year Gilt Yield	4.4050	4.7180	↓

## Official House Price data, HM Land Registry, September 2023

Sources: HM Land Registry

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
West Oxfordshire	£414,782	1.1%	4.9%
Bath and North East Somerset	£454,062	4.0%	3.8%
Vale of White Horse	£443,291	1.3%	3.2%
Leeds	£246,187	0.9%	2.7%
Oxford	£498,261	-1.2%	2.3%
West Berkshire	£423,496	1.4%	2.1%
North Yorkshire	£285,474	0.4%	2.0%
South Oxfordshire	£530,719	-0.4%	1.8%
Somerset	£308,359	2.0%	0.3%
West Northamptonshire	£297,627	0.4%	-0.1%
Cambridgeshire	£358,926	-0.4%	-0.2%
Wiltshire	£341,013	0.8%	-0.3%
South Cambridgeshire	£452,228	-0.9%	-0.3%
Cambridge	£515,926	0.1%	-0.6%
North Northamptonshire	£270,839	0.2%	-0.8%
Suffolk	£301,527	-0.2%	-0.9%
Cornwall	£316,210	0.0%	-1.7%
York	£320,683	-3.6%	-1.8%
Winchester	£492,648	-2.0%	-2.0%
Devon	£338,008	-0.6%	-2.1%
Dorset	£360,816	1.9%	-2.6%

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
North East	£163,368	-2.0%	1.6%
North West	£218,013	0.5%	0.6%
West Midlands region	£253,624	-0.2%	0.5%
East Midlands	£251,068	-0.6%	0.4%
Yorkshire and The Humber	£210,156	-2.4%	0.0%
<b>United Kingdom</b>	<b>£291,385</b>	<b>-0.5%</b>	<b>-0.1%</b>
<b>England</b>	<b>£309,602</b>	<b>-0.5%</b>	<b>-0.5%</b>
London	£537,424	-0.3%	-1.1%
South East	£392,174	-0.6%	-1.4%
East of England	£352,509	-0.4%	-1.4%
South West	£328,668	-0.1%	-1.6%
Wales	£214,912	-0.9%	-2.7%

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£537,424	-0.3%	-1.1%
Prime Central London	£1,085,166	-6.5%	-11.4%
South West London	£730,486	0.9%	-1.9%

## Official House Price data, HM Land Registry, September 2023

Sources: HM Land Registry

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Tower Hamlets	£509,454	7.4%	6.4%
Hounslow	£475,965	2.3%	4.9%
Lewisham	£483,377	3.1%	4.3%
Redbridge	£504,869	4.5%	4.1%
Lambeth	£579,990	3.4%	3.7%
Ealing	£554,377	2.1%	3.1%
Haringey	£623,771	2.4%	1.9%
Greenwich	£445,801	0.8%	1.6%
Merton	£587,927	-0.1%	0.6%
Newham	£415,168	1.3%	0.4%
Havering	£428,316	1.0%	0.4%
Enfield	£454,410	1.9%	-0.1%
Croydon	£430,541	3.4%	-0.3%
Barking and Dagenham	£345,614	0.4%	-0.7%
Sutton	£437,958	1.9%	-0.8%
<b>London</b>	<b>£537,424</b>	<b>-0.3%</b>	<b>-1.1%</b>
Richmond upon Thames	£756,317	-1.1%	-1.4%
Southwark	£549,329	1.4%	-1.4%
Harrow	£520,995	2.6%	-1.7%
Bromley	£502,753	-1.3%	-1.7%
Brent	£565,929	1.5%	-1.8%
Hammersmith and Fulham	£797,211	2.1%	-1.8%
Hillingdon	£455,107	-0.6%	-2.0%
Islington	£718,622	0.7%	-2.1%
City of Westminster	£967,277	0.3%	-2.2%
Bexley	£396,292	0.0%	-2.2%
Waltham Forest	£510,471	1.8%	-2.5%
Wandsworth	£637,929	1.7%	-2.6%
Barnet	£584,740	-2.2%	-2.8%
Kingston upon Thames	£542,014	-0.9%	-4.0%
Hackney	£613,851	-3.3%	-5.3%
Camden	£810,578	-5.1%	-5.8%
Kensington And Chelsea	£1,203,055	-11.3%	-20.6%
Outer London	£491,375	0.8%	-0.5%
Inner London	£624,898	0.8%	-1.6%

## HomeLet Rental Index, October 2023

Source: HomeLet Rental Index

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
Scotland	£952	-2.6%	12.0%
Northern Ireland	£887	1.3%	11.2%
Yorkshire & Humberside	£875	1.0%	11.0%
North West	£1,016	1.0%	10.7%
South East	£1,370	0.8%	10.2%
Greater London	£2,192	0.6%	10.2%
East Of England	£1,216	0.7%	9.7%
<b>UK</b>	<b>£1,283</b>	<b>0.5%</b>	<b>9.6%</b>
<b>UK (excluding London)</b>	<b>£1,068</b>	<b>0.7%</b>	<b>9.4%</b>
East Midlands	£869	1.2%	9.0%
North East	£677	1.3%	8.7%
West Midlands	£937	0.4%	8.2%
Wales	£863	1.3%	7.9%
South West	£1,140	0.1%	5.0%

### 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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