

Residential Update and Outlook

January 2024

Market Overview

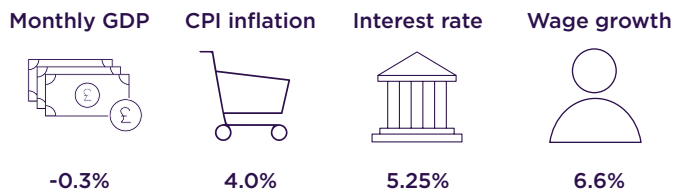
The start of a new year provides reasons to be optimistic about the UK economy. Inflation is heading in the right direction moving from a peak of 11.1% in October 2022 to 4.0% by December 2023, interest rates are stable and expected to keep falling in line with declining inflation. In turn, mortgage rates have also been falling after reaching a peak of over 6.1% in July 2023 and wages are now growing faster than inflation. Nevertheless, there are still some obstacles to confidence. Economic growth is still floundering, with the latest quarterly data indicating contraction of -0.2%, none of the purchasing managers indices are indicating any great degree of expansion and while wage growth is positive for employees it can lead to further inflation. So, while 2024 may witness some modest economic growth we don't expect a strong or quick recovery from the sluggishness of 2023.

A surprise annual house price growth rate of +1.7% was recorded by Halifax in December 2023. This marks the highest growth rate since February 2023. Nationwide also reported a "less negative" figure for December compared to November, at -1.8% annually. Interestingly, the price rise appears to be driven by limited supply rather than rising buyer demand. Vendors continue to shy away from the market, creating a shortage of available properties and putting upward pressure on prices.

Key Points

- Economic output (GDP) rose by +0.3% in November, following a fall of -0.3% the month before. On a quarterly basis though GDP was found to have declined by -0.2%.
- There was a surprise rise in the pace of inflation in December, moving from 3.9% in November to 4.0%. Rising prices from alcohol and tobacco appear to have placed the largest upward pressure on prices compared with December 2022.
- Consumer confidence rose two points to -22 in the December GfK Consumer Confidence Index, up from -24 the month before with the Personal Financial Situation sub-measure nearly in positive territory, at -2.
- Interest rates remain unchanged at 5.25% with no MPC meeting this month. Despite this, average mortgage rates continue to decline as competition between lenders increases and many are optimistic about the UK economy this year.
- Job vacancies continue to slip, down by nearly 50,000 and marking the 18th month in a row where vacancies have declined.
- Wage growth slowed again in the three months to November, rising by 6.6% on average. This is down from 7.3% during the previous three months and marks the third month in a row of slowing growth.
- December's Services sector Purchasing Managers Index (PMI) rose to 53.4, the fastest pace of expansion in this sector since June. Rising consumer demand and increased new orders were cited, while optimism improved. The other two PMIs from the manufacturing and construction sectors remained in contraction (below 50), in December.
- Signs of an improving sales market ahead came from the latest RICS residential survey as the buyer demand metric returned its strongest reading since April 2022. Additional supply looks slower off the mark, but this too showed its best reading since 2022.
- Slightly conflicting data was reported by Nationwide and Halifax in their latest house price indices with Nationwide returning annual price declines of -1.8% while Halifax recorded growth during the year of +1.7%. The overall trend from both indices however is that price growth is trending upwards, albeit largely driven by a lack of supply.
- Tenant registrations per branch remained unchanged in November, according to ARLA PropertyMark. The figure remains at 82 per branch, on par with the last three Novembers and not indicative of any fundamental change in the market.
- The pace of rental growth has again slowed according to HomeLet's December report, although at 8.0% per annum this is still well above the long-term average of less than 4%.

Economic backdrop



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

The Macroeconomy

- First estimates indicate GDP grew by +0.3% in November (month on month) following the -0.3% fall in October. Services output grew by 0.4% and this was the main contribution to monthly growth. Production output rose by 0.3% while the construction sector reported a -0.3% fall on the month. Despite November's rise, on a three-monthly basis GDP fell by -0.2% compared with the previous three months. In the three-monthly figure it was production that fell the most, declining by -1.5% over the period.
- CPI inflation rose to 4.0% in December, up from 3.9% in November and above the consensus forecast of 3.8%. This is the first time the rate has risen since February 2023. The largest upward contribution came from alcohol and tobacco while the largest downward contribution was from falling food prices. Despite this unexpected rise in December we still expect inflation to begin to fall back significantly early this year.
- There is no Monetary Policy Committee meeting in January so rates remain at 5.25%. Looking ahead, the MPC will be hoping that wage growth continues to slow to keep inflation in check. But the National Living Wage is due to rise by nearly 10% in April which will add some pressure. Nevertheless, we expect that the MPC will keep interest rates stable before slowly reducing them later this year.

Labour and employment

- For the 18th consecutive period job vacancies fell on the quarter, down by an estimated 49,000 to 934,000. The estimated number of payrolled employees fell by 24,000 in December, following November's upwardly revised rise of 9,000 (from a previous reading indicating a fall of 13,000). Given the recency of the data, December's figure is also likely to be revised.
- In terms of the employment rate this edged up by 0.1 percentage points to 75.8% in the three months to November, while the unemployment rate remained unchanged at 4.2%.
- Average weekly earnings grew by 6.6% in the three months to November, down from 7.3% in the previous quarter. This is the third consecutive reading where wage growth has eased following a peak of 7.9% in July and August 2023, indicating that growth in

wages has lost considerable momentum over the last few months of the year. Disaggregated, it was the wholesale, retail, hotels and restaurants sector which saw the largest growth at 7.2% annually, followed by the finance and business sector at 7.0%.

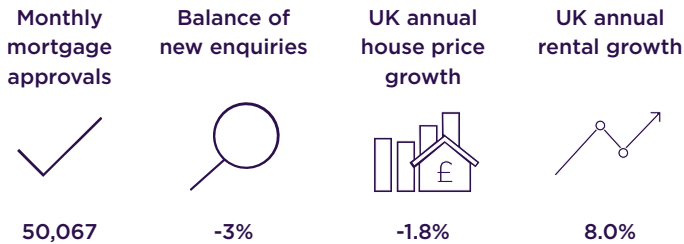
Market indicators

- The S&P UK Manufacturing PMI slipped to 46.2 in December, down from 47.2 the month before. Decreased overseas demand and weaker new business orders were to blame, with new business now down for the ninth consecutive month. Employment also declined, for the 15th month in a row, although input costs continued to fall and selling prices rose. Business optimism fell to a 12-month low due to the uncertain economy and high interest rates.
- The UK Services PMI on the other hand rose in December, climbing to 53.4 from 50.9 in November. This is the second month in a row where the sector has shown expansion (any figure above '50') following three months of contraction. New orders rose while survey respondents reported some signs of a reviving consumer demand, with particular signs pointing to the financial services and technology sectors. Unsurprisingly, wage pressures showed the highest rate of input cost inflation since August which meant hiring was scaled back.
- Lastly, the Construction PMI also rose slightly in December, to 46.8 from 45.5 the month before. This is the highest reading in four months but clearly still in contraction. House building once again was the worst performing sub-sector with an index of 41.1 followed by civil engineering work and commercial construction. Nevertheless, business confidence / optimism grew on the month despite subdued customer demand.

Consumer demand and sentiment

- Retail sales volumes fell by 3.2%, well below the +1.4% in November and worse than the consensus of -0.5% fall that was expected. On a quarterly basis volumes fell by 0.9% in the three months to December. Non-food store sales declined the most, down -3.9% following a +2.7% in November which suggests that many consumers may have moved their usual December Christmas spending forwards to benefit from Black Friday sales.
- According to GfK's long-running series consumer confidence rose again the latest four weeks in December. Although the headline figure of -22 still indicates negativity this is up from -24 the month before and well above the -42 figure at the same time last year. All five sub-measures rose on the month with the Personal Financial Situation (coming 12 months) moving up one point to -2, well above the -29 in December 2022 and an encouraging sign for 2024.

Residential market



Sources: Bank of England, RICS, Nationwide, HomeLet

Residential sales

Mortgages and transactions

- November's mortgage approvals data rose for the second month in row, increasing to just over 50,000 on the month according to Bank of England data. Year to date total approvals are running at circa 530,000, about 73% of the pre-COVID (2019) average level.
- As with the month before though, and in contrast to mortgage approvals, total transactions declined in November according to HMRC. This is now the third consecutive month of falling sales rates. Total volumes for 2023 are likely to be just over 1.02 million which is around 13% below the pre-COVID rate of around 1.2 million per annum.
- Average mortgage rates have continued to their downward trend with the latest rate of 4.82% (5 year, 85% LTV) down significantly from 5.16% one month ago. This is the first time average rates have fallen below 5% since May 2023.

Supply and demand

- December's RICS residential market survey underpins the overall trend of an improving residential market this year. New buyer enquiries increased to -3% in December, up from -14% the month before and the highest level since May 2022. The net balance of agreed sales also improved moving to -6% and again the 'least negative' figure since May 2022.
- On the other hand, supply remains rather flat with the RICS measure at +1% although this marks a significant improvement from -26% in August last year. We expect that demand (new buyer enquiries) will rise quicker than new supply over the coming months as disposable income improves and mortgage rates decline through the course of the year.
- Rightmove's January house price report finds that the number of new properties coming to the market is 15% higher than the same month last year, while buyer

demand is 5% higher. The number of agreed sales during the first week of the year was also 20% higher than during the first week of last year, indicating a return of buyer confidence this year following the mini-Budget debacle of 2022.

UK prices and price growth

- Nationwide reports that house prices declined by an average of just -1.8% in 2023, according to their latest December data. This is up from -2.0% the month before and reflects no change in the monthly figure. This means that average prices are currently 4.5% below the peak of the market reached during the summer of 2022. The average property is now £257,443 according to the bank. Nationwide expects that prices will remain subdued throughout 2024, with average figures set to remain flat or fall by up to 2%.
- Quite surprisingly, Halifax figures actually showed a rise during the year with their data indicating +1.7% house price growth in December. What's more, this reflects a monthly price rise of 1.1% with the average property price now £287,105. Despite this, the bank forecasts that prices will continue to fall in 2024, declining between -2% and -4% over the next 12 months.
- Rightmove data also points to a slightly improving picture with annual asking prices down by just -0.7% compared with -1.1% in December. On a monthly basis January's figures saw a rise of +1.3% over December, marking the strongest December to January increase since 2020.
- Official house price data indicates that UK prices declined by -2.1% in the 12 months to November, down from -1.3% a month earlier. On a monthly basis prices were reported to have declined by 0.8% to reach an average sale price of £284,950. Clearly this data is two months behind the other main price indices but it is more reflective of the entire market. Saying that, the overall price fall recorded is reasonably similar to that which the other indices were reporting at the time.
- Participants of the RICS residential survey returned a house price net balance figure of -30% in December, up from -43% in November and the least negative of this metric in over a year. This suggests downward pressure on prices is weakening although respondents in every region and country apart from Northern Ireland noted that prices were currently still falling.
- Looking ahead and respondents to the RICS survey reported that near-term pricing will remain negative while over the 12-month outlook a net figure of 0% was returned meaning prices will at least remain stable. This is up from -10% the month before.



Regional prices and price growth

- Nationwide's latest regional house price data, released this quarter, reveals East Anglia as the hardest-hit region with a -5.2% annual decline. The Outer South East and Outer Met area follow closely behind, experiencing dips of -4.5% and -3.6%, respectively. Northern Ireland and Scotland bucked the trend, recording the only price gains of +4.5% and +0.5%, respectively. Meanwhile, Yorkshire and the Humber (-0.5%) and the North (-0.8%) saw the slowest rate of declines.
- There is a wide spread of annual house price changes across our Carter Jonas tracked locations in the latest Official house price data. Oxford was reported to have seen 5.7% price growth over the 12 months to November followed by Bath at 4.6% and South Cambridgeshire at 4.3%. At the bottom of our list of 21 regional locations is Cambridge which recorded a fall of -6.0%, Cornwall at -4.1% and Suffolk at -4.0%.
- Of all the regions London posted the sharpest annual house price decline of -6.0%. Again though there was a wide spread of trajectories with both Richmond and Redbridge recording the highest level of growth at +4.2% while the most expensive boroughs of Westminster and Kensington posted double-digit price falls of -14.6% and -17.6%, respectively. Together, these two prime central boroughs are currently recording an average house price of £998,992, the first time this figure has fallen below £1 million since August 2013.

Residential lettings

Supply and Demand

- ARLA Propertymark reported no change in the number of new tenant registrations per branch in November, holding at 82. While this is down considerably from a

high of 124 in July it may not reflect any fundamental trend change in the market as they note on a seasonal basis this figure has been similar in each of the last three Novembers.

- The ARLA report goes on to note that there is also little change in the supply side with the average number of available properties to rent unchanged at around 10 per branch.
- Tenant demand continues to pick up over the month of December, according to the latest RICS residential survey. Nevertheless, with a +17% figure returned on this metric demand looks at least to be easing slightly as it marks the lowest rate from this measure since January 2021.
- Landlord instructions however remains scarce with this metric moving further downwards at -30% from -18% the month before.

Rents and rental growth

- For the sixth month in a row rental growth eased in December, rising by 8.0%, down from 8.9% in November and the slowest annual rate of growth since September 2021. Once again Northern Ireland posted the highest growth at 11.2% followed by the East Midlands at 9.8% and East of England which saw 9.7% annual rise. The South West saw the slowest rate of growth at 5.3% followed by London at 6.0%. This is the lowest annual rental rise in London in nearly 2½ years.
- The gap between demand and supply in the lettings market continues to put strong upward pressure on rents. A net balance of +50% of RICS market survey participants expect rents to continue to rise over the short-term. Over the longer-term respondents expect a 4% rise in rents this year with an average increase of 5% per annum over the next five years.

HM Treasury Forecasts for the UK Economy, January 2024

Sources: HM Treasury Consensus Forecasts (January 2024, November 2023 (long-term forecasts))

	2023	2024	2025	2026	2027
Official Bank Rate (%)	5.25	4.46	4.06	3.29	3.11
House price inflation (annual, %)	-2.8	-1.5	-2.2	2.1	5.0
CPI inflation rate (annual average, %)	4.2	2.2	1.9	2.0	2.1
Unemployment rate (%)	4.3	4.7	4.7	4.8	5.0
GDP (annual, %)	0.4	0.4	1.4	1.7	1.6
Average earnings growth (annual, %)	6.6	3.8	3.1	3.3	3.4

Select Market Indicators, latest versus previous data

Sources: ONS (unless otherwise indicated) (final six indicators retrieved 19 January)

	Current	Previous	Direction of change
GDP monthly	+0.3%	-0.3%	↑
Inflation rate (CPI)	4.0%	3.9%	↑
Interest rate	5.25%	5.25%	↔
Employment rate	75.8%	75.7%	↑
Unemployment rate	4.2%	4.2%	↔
Weekly earnings growth, regular pay (excl bonuses)	6.6%	7.3%	↓
S&P Global / CIPS Manufacturing PMI	46.2	47.2	↓
S&P Global / CIPS Services PMI	53.4	50.9	↑
S&P Global / CIPS Construction PMI	46.8	45.5	↑
Retail sales volume (monthly % change)	-3.2%	1.4%	↓
GfK Consumer Confidence Index	-22	-24	↑
Bank of England mortgage approvals (monthly)	50,067	47,888	↑
Nationwide house price inflation (annual)	-1.8%	-2.0%	↑
Halifax house price inflation (annual)	+1.7%	-1.0%	↑
Official UK House Price inflation (annual)	-2.1%	-1.3%	↓
Rightmove House Price Index (annual, asking)	-0.7%	-1.1%	↑
HomeLet Rental Index (annual)	8.0%	8.9%	↓
£ Sterling: \$ USD	\$1.27	\$1.28	↓
£ Sterling: € Euro	€1.16	€1.16	↔
Brent Crude Oil (USD)	\$79.00	\$79.76	↓
Gold (USD)	\$2,030.15	\$2,040.67	↓
FTSE 100	7,503.12	7,729.64	↓
UK 5 Year Gilt Yield	3.8100	3.5675	↑

Official House Price data, HM Land Registry, November 2023

Sources: HM Land Registry

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
Oxford	£507,001	1.5%	5.7%
Bath and North East Somerset	£461,328	3.4%	4.6%
South Cambridgeshire	£460,253	1.3%	4.3%
West Oxfordshire	£413,186	1.4%	2.2%
Wiltshire	£341,451	-1.1%	0.0%
West Berkshire	£406,023	-3.5%	-0.2%
Winchester	£497,651	-0.1%	-0.4%
Leeds	£242,238	-1.0%	-0.6%
Devon	£339,720	-1.3%	-1.0%
Cambridgeshire	£354,294	-1.8%	-1.0%
Vale of White Horse	£423,667	-2.8%	-1.5%
Somerset	£305,040	-1.4%	-1.9%
Dorset	£362,199	0.4%	-2.3%
West Northamptonshire	£293,995	-0.2%	-2.3%
North Northamptonshire	£270,268	0.1%	-2.6%
North Yorkshire	£274,138	-2.0%	-2.7%
York	£314,690	-1.5%	-3.0%
South Oxfordshire	£506,410	-4.9%	-3.2%
Suffolk	£295,982	-1.9%	-4.0%
Cornwall	£312,338	-0.9%	-4.1%
Cambridge	£501,287	-5.3%	-6.0%

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
North East	£159,871	-0.2%	-0.4%
Yorkshire and The Humber	£209,526	0.0%	-0.8%
North West	£213,333	-0.9%	-2.0%
United Kingdom	£284,950	-0.8%	-2.1%
South East	£385,844	-0.4%	-2.3%
Wales	£212,866	-0.3%	-2.4%
England	£301,613	-1.2%	-2.9%
East Midlands	£243,577	-0.8%	-3.0%
East of England	£346,659	-0.2%	-3.3%
West Midlands region	£243,655	-3.1%	-3.4%
South West	£319,221	-2.7%	-4.1%
London	£505,283	-2.2%	-6.0%

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£505,283	-2.2%	-6.0%
Prime Central London	£998,992	-9.4%	-16.1%
South West London	£704,403	-0.6%	-1.6%

Official House Price data, HM Land Registry, November 2023

Sources: HM Land Registry

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Richmond upon Thames	£778,347	-0.3%	4.2%
Redbridge	£503,086	1.6%	4.2%
Hounslow	£468,360	0.1%	2.4%
Newham	£425,493	1.2%	0.8%
Barking and Dagenham	£353,585	3.6%	0.1%
Lewisham	£458,033	-2.4%	-0.7%
Enfield	£455,363	0.7%	-0.8%
Lambeth	£548,093	-2.8%	-0.8%
Islington	£703,413	-2.4%	-1.4%
Merton	£569,635	-0.1%	-1.5%
Havering	£426,530	0.8%	-1.6%
Camden	£830,349	-1.1%	-1.7%
Haringey	£599,888	0.7%	-2.1%
Wandsworth	£625,786	-0.9%	-2.1%
Barnet	£581,265	0.3%	-2.1%
Bromley	£500,485	-0.9%	-2.5%
Hillingdon	£459,552	2.6%	-2.6%
Waltham Forest	£502,114	-2.2%	-2.9%
Kingston upon Thames	£542,817	-1.8%	-3.1%
Hackney	£617,169	0.3%	-3.6%
Sutton	£423,148	-2.7%	-4.0%
Southwark	£535,001	-0.4%	-4.0%
Brent	£535,808	-3.0%	-4.7%
Harrow	£502,314	-3.0%	-4.7%
London	£505,283	-2.2%	-6.0%
Greenwich	£414,055	-2.6%	-6.1%
Bexley	£381,785	-1.0%	-6.6%
Hammersmith and Fulham	£709,075	-0.7%	-6.8%
Croydon	£395,865	-3.0%	-7.9%
Tower Hamlets	£438,709	-1.9%	-9.6%
Ealing	£482,601	-4.6%	-9.7%
City of Westminster	£870,963	-6.8%	-14.6%
Kensington And Chelsea	£1,127,021	-11.3%	-17.6%
Outer London	£478,294	-1.0%	-3.0%
Inner London	£595,172	-2.2%	-5.1%

HomeLet Rental Index, December 2023

Source: HomeLet Rental Index

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
Northern Ireland	£861	-2.0%	11.2%
East Midlands	£875	0.3%	9.8%
East Of England	£1,215	-0.7%	9.7%
South East	£1,353	-0.9%	9.6%
UK (excluding London)	£1,061	-0.5%	8.6%
Scotland	£911	-1.2%	8.5%
Yorkshire & Humberside	£855	-1.7%	8.2%
UK	£1,268	-0.9%	8.0%
West Midlands	£940	0.0%	7.8%
Wales	£866	-0.1%	7.7%
North West	£1,008	-0.6%	7.5%
North East	£657	-1.2%	6.3%
Greater London	£2,127	-2.2%	6.0%
South West	£1,138	-0.3%	5.3%

About Carter Jonas

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