Carter Jonas

RESIDENTIAL BRIEFING NOTE

March 2019

Market Overview

Brexit worries persist across many parts of the economy, as (at time of publishing), there is little further clarity on what to expect by 29th March. And although January's GDP figures showed a punchy 0.5% growth, in the three months to January the figure is still a paltry 0.2%. Nevertheless it seems as though the average consumer is still taking a stoic approach to the wider political uncertainty as retail sales volumes increased again in February. Furthermore, this month's employment figures were 'all time' highs and wages are still growing at a rate above 3%. The longer wages grow the more confident consumers will feel about their spending habits, and the economy could do with a confident consumer right now.

Executive Summary

- *Although a reasonably resilient 0.5% GDP growth was recorded in January this year, the longer-term three months to January figure is still only 0.2%, indicating a period of dormancy as Brexit worries persist.*
- *Conflicting analysis came out of consumer spending habits again in February with expenditure falling compared with the same month one year ago, while sales volumes actually rose.*
- *This month's Purchasing Managers Indices (PMIs) continue to show signs of a stuttering economy. Both the Manufacturing and Construction sector PMIs declined. The Services sector PMI however rebounded slightly, although not by enough to boost the quarter's six-year low.*
- *Labour figures showed no signs of Brexit worry as the employment rate increased to 76.1% and the unemployment rate fell again to 3.9%, both the lowest figures in over 40 years. Wages meanwhile grew by 3.4%.*
- *The gap between the Nationwide and Halifax house price indices widened this month, with Nationwide reporting annual house price growth of just 0.4% compared with Halifax's punchier 2.8% increase.*
- *The official house price index shows growth of 1.7% in January (latest). London and the south continue to stutter along in negative territory, or just barely above 'no change'.*
- *Brexit uncertainty is now undoubtedly affecting the housing market as declining demand, available stock levels and pricing was recorded across the UK according to the latest RICS report. Just two of twelve regions showed a positive price balance this month;*
- *In contrast to house price growth, rental growth continues to rise, posting a UK average of 3.8%, with London rents growing by a lofty 4.0% annually;*
- *Unlike last month, February saw demand for rental properties grow as new registrants reappeared. Supply also showed signs of growth, although not in London which saw the lowest number of new properties registered while recording the highest number of new tenants.*

UK economic backdrop

- The economy had an unexpectedly welcome GDP boost in January with the ONS reporting that GDP grew by 0.5% during the month. Despite this though, in the **three months to January the economy expanded by only 0.2%, well below trend**. The general feeling is that the economy is in a holding pattern while we wait for Brexit to become clearer.

- **Consumer spending slipped again in February, falling 1.8%** on the year according to Visa's UK Consumer Spending Index. The data split indicates that the decline was across both high street spending (-2.5%) and online retailing (-1.1%). Categories which suffered the strongest declines were **Transport and Communications (-5.6%), Clothing and Footwear (-5.4%) and Recreation and Culture (-3.3%)**. On the other hand Hotels, Restaurants and Bars saw an uplift of 3.2% while Household Goods also grew compared with the same month one year ago, by 1.8%.

- Again this month the retail sales volumes as measured by the Office for National Statistics found that **sales volumes grew in February (contrary to consumer spending indices above) with year on year growth reaching a strong 4.0%. On a monthly basis volumes also grew by 0.4%** over January with 'other' stores contributing the most to growth (i.e.: not clothing). Food sales meanwhile fell on the month, leading some analysts to suggest that many consumers are not panic-buying and stocking cupboards ahead of Brexit.

- Consumer confidence remained stable during February, according to GfK's UK Consumer Confidence index. Although still in negative territory, at -13, this is a slight improvement over last month's figure of -14. There has been no significant decline in some time, meaning that **the average consumer appears to be facing Brexit uncertainty with a certain degree of stoicism**. Once again this month though it was **the Personal Financial Situation indices which measured more positively than the General Economic Situation indices** while the Major Purchase Index increased three points.

- In line with market expectations and not very surprisingly, the **UK Manufacturing Purchasing Managers Index (PMI) fell slightly in February to 52.0**, down from (a revised) 52.6 last month. This sector is clearly feeling the **effects of not only Brexit uncertainty but the global economic slowdown** that has appeared over the last few weeks and months. In detail, new order inflows stagnated combined with a further drop in export orders. Purchasing activity was up, as were inventories, but this was due mainly to Brexit preparations. **Business optimism regarding future output also recorded its lowest level in the series history.**

- A reading of **49.5 in February's UK Construction sector PMI is not only below market expectations of 50.3 but points to contraction** – the first since the "Beast from the East" disrupted the sector last March. The decline was led by strong reductions in commercial and civil engineering projects while residential projects showed only very weak growth. The PMI shows that new work orders was at its lowest since May 2018, while input buying was at its lowest in over 17 months.

- A small ray of sunny news came from this month's IHS / Markit CIPS **Services PMI as it rose to 51.3 from a 30-month low last month of 50.1 and well above market expectations** which predicted a contraction to 49.9. Nevertheless, the reading is still low in relative terms and means that the index is on track for its weakest quarter since 2012 as Brexit uncertainty weighs heavily.

- Again this month the Monetary Policy Committee **(MPC) voted unanimously to hold Bank Rate at 0.75%**. The notes from the MPC's latest meeting suggests they believe continuing Brexit uncertainties and the nature of how and when the EU withdrawal commences has impacted many areas of the economy. Interestingly they go on to say that the MPC response to Brexit, no matter what happens, will not be automatic and could be in either direction.

- **CPI inflation accelerated slightly to 1.9% in February**, up from 1.8% in January and a little above consensus expectations. The largest contribution to inflation this month came from increasing housing and household services costs, followed by rises in recreation and culture, and transportation. Clothing and footwear meanwhile had the strongest downward pull on inflation, with prices in this category falling by 2.0% on the year to February 2019. We anticipate that inflation will continue an upward trajectory as price rises for fuel and utilities come through. Nevertheless, **HM Treasury forecasts are still currently expecting annual inflation of around 1.9% for the year**.

- Seemingly **the only area of the economy where Brexit is of no concern is the labour market**. Employment levels in the three months to January 2019 grew by an astonishing 220,000, increasing the **employment rate to 76.1%**, up from 75.8% last month and the highest figure since data began in 1971. **Unemployment meanwhile also fell, declining to 3.9%** down from 4.0% and again the lowest rate since January 1975.

- **Average wages and earnings this month show growth of 3.4%**, or 1.4% if inflation is taken into account. Although this reflects no change over last month it means that earnings growth remains robust which is positive for consumer sentiment and their resultant purchasing power.
- Despite the last Brexit deal not passing its vote in the Commons, Sterling actually grew in value since last month. Perhaps as the prospect of crashing out with 'no deal' diminishes, **Sterling grew to $1.33 against the Dollar, up from $1.29 while against the Euro it is currently at €1.17** – the strongest value in almost a year.

**Click to see the latest market indicators at the end of document*

Residential property market

Sales Prices and Rents

- Annual **house price growth remained subdued in February, rising just 0.4% year on year, according to Nationwide's** latest index (February), up only very marginally over last month's 0.1% annual recorded growth. On a monthly basis however prices fell 0.1%, offsetting the 0.2% growth recorded in January. Average prices across the UK are now £211,304.
- Coming in at somewhat of a shock, **Halifax's house price index showed a punchy annual growth of 2.8% this month**, up from 0.8% last month, leading to an average UK house price of £236,800. Even more encouraging was the monthly price increase of 5.9%, **the strongest month on month growth that the index has ever recorded.** It's important to remember however that monthly growth is often very volatile and last month recorded a 3% fall in prices.
- Official house price index data shows a slide again in January (latest data), with **annual growth across the UK of 1.7%, down from 2.5% last month. Average prices are now £228,147**, reflecting a fall of 0.8% in the month.
- House prices growth across all regions is now all slowing, as the **strongest region (Wales) shows growth of 4.6%, followed again by the East Midlands (4.4%) and West Midlands (4.0%)**. Conversely, when we look at the bottom of the table we again see **the southern areas lagging**, with London the worst performer as prices fell again by an average of 1.6%, followed by East of England at -0.2%, the South East (0.1%) and the South West (0.5%).
- **These regional variations however have not always been mirrored across the areas where Carter Jonas operates**. Strongest growth was recorded in York at 5.5%, but Cambridge (4.0%), the wider Cambridgeshire district (2.7%) and Suffolk (1.9%) are all to be found in East of England which posted an average fall this month. While the Vale of White Horse (2.3%), Wiltshire (2.2%) and Oxford are all to be found across the South West and the South East, with both regions posting next to no growth.
- **Turning our attention to house price growth in London and again the city posted an average decline this month of 1.6%.** Of the 34 London boroughs (incl City of London), just 14 posted growth with the remaining all posting average annual declines this month. **Prime Central London has been particularly hard hit again this month, with an average fall of 8.2%**; the Westminster average fell by a whopping 14%. The lack of transaction activity during the month is probably mostly to blame by these large falls. **January is typically one of the slowest months for buying and selling homes**, however the prime end of the London market is suffering from a more general lack of transactions.
- The traditionally busier spring market has not gone as expected according to Rightmove's latest data. The **average property asking price actually declined 0.8% in March,** compared with the same month last year, with a monthly rise of just 0.4% being calculated. This is **the lowest monthly rise at this time of year since 2011**, although Rightmove notes that London has been the main drag on overall pricing. It further notes that in nine of the 11 regions outside of London, new (to the market) property prices rose.
- Data from the latest RICS Residential Market Survey shows the **price balance indicator has fallen again this month, marking the weakest price momentum in the survey since 2011**. Interestingly, the survey points out that although the most negative feedback continues to come from London and the South East, there are now just two regions which fed back with positive readings. This marks a change from just six months ago when 8 out of the 12 regions reported positive price growth. **This briefing has said for quite some time that affordability in specific regions was dampening demand and thus price growth, but it now appears that in fact Brexit uncertainty is the overriding factor as negativity spreads across the regions.**

- The number of **tenants experiencing rent rises in January (ARLA Propertymark, latest report) rose to 26%**, up from 18% in December 2018. Those in the East Midlands indicated they were the worst affected, with 50% of tenants saying their rents were increased in January, compared with just 7% in Scotland.

- In contrast to house prices in **Greater London, rents in the city continue to grow, up 4.0% annually according to HomeLet's latest Rental Index** (February 2019). Rents across the UK generally are also up a robust 3.8% over the same time one year ago, or 3.2% when London is excluded. Variations are still evident across the regions, with the South West (7.7%), South East (5.1%), London and Wales (3.9%) the strongest performing areas this month.

- As the HomeLet Index looks at London in greater detail we see that just two of the areas covered have seen a fall rents this month: Richmond (-3.2% pa) and Croydon (-3.7% pa). The remainder have seen some robust growth figures with **Wandsworth averaging 10% growth, Westminster posting an average of 6.8% increase and Chelsea, Fulham, Hammersmith and Kensington showing around 3.5% rental increase, on an annual basis**. The average London rent per calendar month is now £1,599.

**Click to see detailed house price and rent tables*

Activity

- UK **transaction volumes remained virtually unchanged in January over December's figure, to reach 101,170**, according to latest data from HMRC. This is up a modest 1.3% over the same month last year but is nearly 20% above the ten year January average of just around 85,000 transactions. Importantly then, despite current downbeat sentiment that the housing market is subdued, over the longer term this data shows that it is still in a strong phase, certainly where activity levels are concerned.

- **Bank of England mortgage data was a little more upbeat this month**, showing an increase in the number of mortgage approvals by 4% over December's figure, reaching 66,766 approvals in January. Although this was the highest figure in three months, it is still down slightly over the same month in 2018. However, just as with transaction volumes, **January 2019's figure is still a hefty 17% above the ten year January average of just 57,196 approvals.**

- Meanwhile the **number of agreed sales in February was 7% below the same month last year. This follows a 4% decline in January according to Rightmove's** latest House Price Index. The report goes on to say that search activity on their website remains level. This suggests that buyers are keeping a watch on pricing, with the possibility that an eventual bounce-back of activity could be on the cards if the fog of uncertainty lifts.

- The housing market continues to struggle for momentum according to the latest RICS Residential Market Survey (February) as key activity indicators remain in negative territory. **The new buyer enquiries balance fell to its lowest level since the financial crisis**, with a reading of -41%, down from -35% last month, while the new instructions balance also fell. This supports the view that **a lack of available stock on the market is holding back demand**. However, according to the survey Brexit uncertainty is holding back activity the most, with **77% of their respondents agreeing that it is the single 'biggest challenge in the market right now'**.

- On the lettings side, **tenant demand grew modestly this month as it did in January, and for the 29th consecutive month, the new landlord instructions balance remained negative**, according to the RICS survey.

- However, notwithstanding the above, the **average number of properties managed by letting agents actually rose in January to 197, up from 184 in January last year, according to ARLA PropertyMark**. Supply was again highest in the East Midlands and lowest in London, marking no change over the previous month. However, **demand also increased in January** with agents registering an average of 73 new prospective tenants, up from 50 in December. The highest figure was **in London**, where agents averaged 97 new prospective tenant registrants.

HM Treasury **Forecasts for the UK Economy:** February 2019
(latest data)

	2019	2020	2021	2022	2023
Official Bank Rate (%)	1.07	1.51	1.68	1.99	2.31
House Price Growth (annual, %)	1.8	2.2	3.4	3.5	3.3
CPI inflation rate (annual average, %)	1.9	2.1	2.0	2.0	2.1
Unemployment rate (%)	4.1	4.1	4.4	4.4	4.4
GDP (annual, %) (OBR in brackets)	1.4(1.6)	1.6(1.4)	1.7(1.4)	1.7(1.5)	1.8
Average earnings growth (annual, %)	3.1	3.1	3.3	3.2	3.3

Sources: HM Treasury Consensus Forecasts (2019-2020 February 2019, latest) (2021-2023 February 2019, latest), Office for Budget Responsibility (OBR)

Select Market Indicators, latest versus previous data

Market Indicator	Current	Previous	Direction of change
GfK Consumer Confidence Index	-13	-14	↑
Retail sales volumes (monthly % change)	4.0%	1.0%	↑
Visa UK Consumer Spending Index	-1.8%	-1.3%	↓
IHS Markit / CIPS Manufacturing PMI	52.0	52.6	↓
IHS Markit / CIPS Construction PMI	49.5	50.6	↓
IHS Markit / CIPS Services PMI	51.3	50.1	↑
Inflation rate	1.9%	1.8%	↑
Interest rate	0.75%	0.75%	↔
Employment rate	76.1%	75.8%	↑
Unemployment rate	3.9%	4.0%	↓
Weekly earnings growth (not incl bonuses)	3.4%	3.4%	↔
£ Sterling: $ USD	$1.33	$1.29	↑
£ Sterling: € Euro	€1.17	€1.14	↑
Rightmove annual average asking price inflation (newly-marketed)	-0.8%	0.2%	↓
Nationwide annual house price inflation	0.4%	0.1%	↑
Halifax annual house price inflation	2.8%	0.8%	↑
Official UK House Price inflation (annual, HM Land Registry)	1.7%	2.5%	↓
HomeLet Rental Index (annual growth, UK)	3.8%	2.5%	↑

Sources: ONS (unless otherwise indicated)

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Official House Price data, HM Land Registry, January 2019

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
York	£254,591	0.4%	5.5%
Cambridge	£446,713	0.1%	4.0%
Leeds	£185,198	1.1%	3.7%
Cambridgeshire	£298,187	0.8%	2.7%
Vale of White Horse	£355,986	1.1%	2.3%
Wiltshire	£278,428	-0.6%	2.2%
Northampton	£210,825	-0.7%	1.9%
Suffolk	£244,729	0.1%	1.9%
Northamptonshire	£226,478	-0.7%	1.8%
Oxford	£401,014	-0.9%	1.3%
Bath and North East Somerset	£333,468	-1.6%	-0.1%
West Berkshire	£347,524	-0.6%	-0.2%
Babergh	£282,387	1.1%	-0.8%
South Oxfordshire	£399,554	-1.3%	-1.5%
Winchester	£401,231	-1.6%	-1.5%
West Oxfordshire	£323,495	-1.3%	-2.0%
Harrogate	£277,208	-2.1%	-2.1%
South Cambridgeshire	£376,048	-0.5%	-2.4%

Source: HM Land Registry (January 2019, latest data)

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
Wales	£160,232	-1.3%	4.6%
East Midlands	£192,757	0.2%	4.4%
West Midlands region	£195,399	-2.1%	4.0%
North West	£160,811	-1.3%	3.4%
Yorkshire and The Humber	£160,420	-1.0%	2.9%
United Kingdom	£228,147	-0.8%	1.7%
England	**£244,567**	**-1.0%**	**1.5%**
North East	**£125,233**	**-3.3%**	**0.9%**
South West	£253,926	-1.4%	0.5%
South East	£321,174	-0.5%	0.1%
East of England	£288,494	-1.0%	-0.2%
London	£472,230	-0.3%	-1.6%

Source: HM Land Registry (January 2019, latest data)

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£472,230	-0.3%	-1.6%
Prime Central London	£1,183,448	-0.2%	-8.2%
South West London	£664,025	0.1%	1.8%

Source: HM Land Registry (January 2019, latest data)

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
City of London	£868,258	11.1%	8.2%
Ealing	£497,073	2.2%	5.0%
Newham	£357,612	0.1%	4.0%
Barking and Dagenham	£299,399	-0.9%	2.7%
Havering	£373,653	0.4%	2.7%
Merton	£513,077	-1.9%	2.5%
Richmond upon Thames	£653,388	0.4%	2.2%
Wandsworth	£606,479	1.2%	2.1%
Hillingdon	£413,038	0.9%	2.0%
Southwark	£501,456	0.4%	1.9%
Sutton	£381,289	0.9%	1.4%
Hammersmith and Fulham	£732,206	-1.2%	1.1%
Redbridge	£426,165	-1.4%	1.0%
Hounslow	£406,300	1.7%	0.8%
Greenwich	£386,899	-0.7%	0.0%
Bexley	£341,060	-0.9%	-0.3%
Lewisham	£405,135	-1.6%	-0.5%
Bromley	£443,289	0.0%	-0.8%
Haringey	£543,143	-0.3%	-1.0%
London	£472,230	-0.3%	-1.6%
Enfield	£388,185	-2.0%	-1.7%
Lambeth	£502,321	-1.3%	-2.3%
Hackney	£536,344	-2.7%	-2.8%
Barnet	£516,916	-3.6%	-2.8%
Waltham Forest	£433,988	-1.0%	-2.9%
Croydon	£360,905	-0.6%	-3.1%
Islington	£631,737	1.2%	-3.2%
Brent	£476,933	0.9%	-3.4%
Kingston upon Thames	£471,659	-2.3%	-3.7%
Kensington And Chelsea	£1,407,430	1.4%	-3.8%
Harrow	£452,046	-2.1%	-4.6%
Tower Hamlets	£421,131	-2.2%	-6.0%
Camden	£788,656	-3.9%	-8.3%
City of Westminster	£959,466	-2.4%	-14.0%
Outer London	£425,588	-0.5%	-0.2%
Inner London	£567,864	-0.8%	-1.9%

Source: HM Land Registry (January 2019, latest data)
Note: Boroughs in orange indicate an Inner London borough.

HomeLet Rental Index, February 2019

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
South West	£868	1.0%	7.7%
South East	£1,046	2.3%	5.1%
Greater London	£1,599	0.7%	4.0%
Wales	£616	1.7%	3.9%
UK Average	£940	0.9%	3.8%
Scotland	£653	4.1%	3.3%
UK excluding Greater London	£782	0.9%	3.2%
North West	£707	0.6%	2.8%
West Midlands	£694	0.1%	2.7%
Yorkshire & Humberside	£635	-0.2%	1.6%
Northern Ireland	£638	-0.9%	1.1%
East Midlands	£625	0.2%	1.0%
East Of England	£915	0.7%	0.9%
North East	£524	-1.9%	0.8%

Source: HomeLet Rental Index, February 2019 (latest data)

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 38 offices and 700 property professionals, our commercial team is renowned for their quality of service, expertise and the **simply better advice** they offer their clients.

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