

Residential Update and Outlook

March 2024

Market Overview

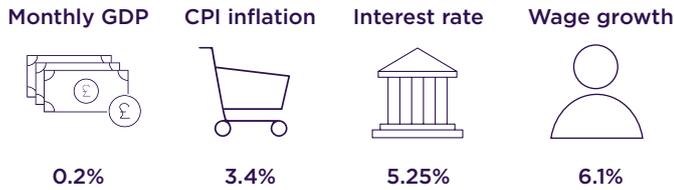
The UK economy shows signs of recovery after what will hopefully be a short-lived recession in late 2023. Positive indicators include an increase in monthly GDP (0.2% in January), rising business and consumer confidence, and moderating inflation forecasts, partly due to declining energy prices. The labour market remains strong, with a growing number of payrolled employees and a low unemployment rate (3.9%). However, external challenges are placing downward pressure on any further potential growth optimism; the ongoing conflicts in Ukraine and the Middle East are disrupting global supply chains and pushing up oil prices.

The housing sector is gathering steam, with house price growth in positive territory according to both major indices: Halifax reporting 1.7% annual growth and Nationwide posting 1.2%. Mortgage approvals also rose to their highest level since October 2022, with just over 55,000 approvals in January, a hefty 40% increase over the same time last year. The lettings market, however, shows little change. Tenant demand continues to outstrip an already constrained supply of rental properties, putting upward pressure on rents. Although rental growth is slowing, this is due to rents reaching an upper limit of affordability, rather than a significant shift in the demand-supply balance.

Key Points

- Following a technical recession in the latter half of 2023, GDP rose by 0.2% in January, offering hope that the recession may already be over.
- The UK's inflation rate dropped to 3.4% year on year in February, down from 4% in both December and January. The price of food, alcohol, restaurants, and hotels rose by less than the previous period, placing the largest downward pressure on inflation.
- Consumer confidence remained unchanged in March, according to GfK's latest measure. On a positive note, though the personal financial situation measure (next 12 months) turned positive for the first time in over two years.
- The Bank of England held interest rates at 5.25% for the fifth time in a row in their latest meeting. There were some positive indications following the meeting though that rate cuts may be a few short months away, assuming price pressures become more certain.
- There was another increase in the number of payrolled employees in January, increasing by 15,000 and reflecting a 1.3% rise over the last year. The pace of growth however is slowing.
- Average weekly earnings increased by 6.1% annually, only slightly down from 6.2% the month before. The pace of growth is expected to fall through to the end of the year.
- In February, both the Manufacturing PMI and Construction PMI edged up slightly but remained in contraction territory (below 50). However, construction PMI posted its highest level since August last year. The Services PMI, on the other hand, dipped slightly but stayed in expansionary territory at 53.8.
- Both Halifax and Nationwide reported annual house price growth this month, posting 1.7% and 1.2%, respectively. Rightmove also reported increasing asking prices, rising by 0.8% annually and 1.5% over just the last month, the strongest monthly rise for ten months.
- Looking ahead and RICS Residential Market Survey respondents returned a reading of +36% who now believe house prices will return to growth over the next 12 months, up from just 18% the month before.
- The RICS survey also noted an improving housing sales market with positive new buyer enquiries for the second month in a row, and the new instructions balance at its highest rate since October 2020.
- The level of tenant demand in the lettings market may be easing slightly according to the latest RICS Residential Market Survey, but it is still very elevated compared with the long-term average. However, there was no change in the level of landlord instructions, meaning the available supply is still tight.
- The overall pace of rental growth continues to ease according to HomeLet's latest data. The UK average rise of 7.4% (annually) is the slowest rate since July 2021.

Economic backdrop



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

The Macroeconomy

- Monthly GDP grew by 0.2% in January, up from -0.1% the month before and in line with market forecasts. The largest upward contribution came from a rise in the services sector (+0.2%) including retail trade, human health and education. The construction sector also grew sharply while industrial output fell by -0.2%. Over the three months to January GDP was found to have declined by -0.1%.
- CPI inflation rose by 3.4% in the 12 months to February, down from 4.0% in January, the lowest level since September 2021 and ahead of expectations of a 3.5% rise. There was a slowdown in price increases from food, restaurants and hotels while upward contributions came from housing, utilities and transport.
- Interest rates were held at 5.25% for the fifth consecutive time, by the Bank of England's Monetary Policy Committee (MPC). The MPC voted 8-1 for keeping rates unchanged with one member voting for a 25-basis point decrease. The meeting notes and subsequent statement by the Governor and members was one of optimism about the current economic trajectory suggesting that rates could begin to reduce although greater certainty over price pressures would need to be clear.

Labour and employment

- Data from the Labour Force Survey should still be treated with caution due to low sample sizes achieved by the ONS over recent months. Nevertheless, latest estimates show the unemployment figure moved up to 3.9% in the three months to January from 3.8% the previous quarter. Total employment meanwhile remains unchanged at 75.0%.
- The number of payrolled employees rose by 15,000 in the month to January, reflecting an annual increase of 1.3% or 386,000 people. While this figure continues to rise, the rate of growth is slowing. Early estimates for the February figure suggest an increase of 20,000 but is likely to be revised.
- The number of job vacancies fell yet again, for the 20th consecutive quarter, declining by 43,000 to 908,000 vacancies. This represents a 4.5% decline over the

previous quarter and reflects a 224,000 fall year on year. Despite all this, the figure is still 107,000 above pre-pandemic levels.

- Annual growth in employees' average weekly earnings (excluding bonuses) moved down only very slightly, with the latest estimates showing a 6.1% rise (November 2023 to January 2024), down from 6.2% in the previous quarter. Looking ahead and the figure is likely to rise again this spring with the National Living Wage due to increase by 10% from April. But most surveys suggest that overall wage growth will slow throughout the remainder of the year.

Market indicators

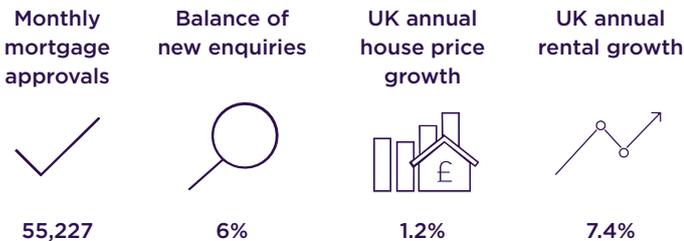
- February's manufacturing PMI (S&P Global) reached 47.5, up from 47.0 in January and the highest figure since April 2023. Despite this improvement anything below '50' is still signalling contraction, where it has been for 19 consecutive months. Challenges from deliveries and disruptions due to the Red Sea crisis as well as new orders falling at the sharpest rate since October contributed to the weak performance this month.
- Meanwhile the services PMI ticked down to 53.8 in February, from 54.3 the month before. Nevertheless, there was a steady rise in business activity in the month including a rise in new orders and employment levels. Increased wage pressures and shipping costs lead to rising input prices. Encouragingly though, future growth optimism rose to its highest level in 24 months.
- Business optimism in the construction sector has continued to improve for the third consecutive month, reaching its highest level since January 2022, according to the latest Construction PMI (S&P Global). This, combined with rising new business growth and stable output levels, led the latest index figure to rise to 49.7 in February, the highest level in six months.

Consumer demand and sentiment

- Overall retail sales volumes remained flat in February (0.0%), following a sharp and upwardly revised growth of 3.6% the month before. Not all retailers experienced similar level of sales volumes though with departments stores and clothing sales rising on the month (1.6% and 1.7% respectively) while food stores (-0.3%) and fuel retailers (-1.3%) posted declines.
- The GfK Consumer Confidence indicator remained unchanged in March, at -21. Two of the sub-measures declined in the month including the major purchase index which fell two points to -27. On the other hand, the confidence in personal financial situation over the past 12 months and the next 12 months as well as the

general economic indicator over the next 12 months, all increased slightly. Encouragingly, the personal finance measure (next 12 months) moved into positive territory (+2) for the first time since December 2021 and is a sharp change from the -21 figure this time last year.

Residential market



Sources: Bank of England, RICS, Nationwide, HomeLet

Residential sales

Mortgages and transactions

- The year got off to a strong start according to the Bank of England's latest mortgage approvals data. Total approvals rose yet again in January, increasing to 55,227 in the month, up 7% over December's figure and a strong 40% more than the same month one year ago. This also marks the fourth month in a row of rising approvals and the highest monthly figure since October 2022.
- Overall transaction volumes also increased in January, according to HMRC's figures. With a provisional figure of 82,000 during the month this is up 2% over December. However, with mortgage approvals typically in place several months before the final transaction occurs, and mortgage figures having steadily risen since September of last year, we still believe that the next few months will begin to see a rise in completed sales levels.
- Mortgage rate cuts from the main lenders came quickly at the start of the year amid price wars and the expectation that interest rates would fall quickly at the start of 2024. However they have since edged up again with a current average mortgage rate of 5.22% (85% LTV, 2 year), up from a low of 4.96% just six weeks ago (Rightmove / Podium).

Supply and demand

- February's RICS Residential Market Survey shows a slight strengthening in the sales market. Demand is still positive with new buyer enquiries at +6% while the new instructions balance moved to +21%, its highest reading since October 2020. A lack of available supply was a key problem in the sales market last year, so it is encouraging to see this metric move positively.

- Staying with the RICS survey and the near-term sales expectations metric was slightly less positive at +6% (compared with 12% last month) but activity is expected to strengthen over the coming year with the longer-term forecast figure at +42%.
- Rightmove's March house price index report notes that there are 13% more agreed sales during this four-week period than the same time one year ago. There are also 8% more buyers than the same time last year, although they note that this has been mainly buoyed by cash buyers rather than mortgage holders.

UK prices and price growth

- Nationwide reported annual house price growth of 1.2% in February, the first time it has been in positive territory since January 2023. This means prices are now just 3% below their peak in the summer of 2022 with the average UK house price now £260,420. On a monthly basis prices rose by 0.7%, following a similar 0.7% rise in January.
- Meanwhile house prices were found to have grown by 1.7% annually according to Halifax's latest report, down from last month's 2.3% rise. On a monthly basis prices rose for the fifth consecutive month, increasing by 0.4% in February. The average UK home now costs £291,699, reflecting an increase of around £1,000 over January's price.
- Asking prices increased by an average of 1.5% in March (monthly) according to Rightmove, making this the highest March rise in the 22-year history of the series and also the highest monthly growth for ten months. This also translated to an annual increase of 0.8%.
- Meanwhile the Official House Price Index data from the ONS (January 2024, latest data) reported an annual fall in prices of -0.6%, up from (a downwardly revised) -2.2% in the 12 months to December. The average house price in England declined by -1.5%, but this was partially offset by a hefty +4.8% rise in Scotland.
- The RICS Residential Market Survey price balance measure increased to -10% in February, from -18% in January. This figure has been slowly becoming less negative over the last six months and is now the least negative since October 2022.
- Looking ahead and RICS contributors in England and Wales returned a net balance of +36% for house prices meaning they anticipate a return to growth over the next 12 months. This figure is up from +18% in January and is the highest figure in nearly two years.



Regional prices and price growth

- Out of the 21 Carter Jonas locations we track, 19 saw house prices decline over the past year. York experienced the steepest drop at -5.5%, followed by South Oxfordshire (-4.5%) and West Berkshire (-3.8%). Bucking the trend, Winchester posted another strong rise of 7.3% in the last 12 months, following a 4.8% increase in December (revised). This brings the average house price in Winchester to £505,000, a 24% increase since February 2020.
- Across the UK's regions and countries, the highest price growth occurred in Scotland where a 4.8% rise was posted. Northern Ireland (3.4%), the North West (1.0%) and West Midlands (0.6%) also saw price rises while the remaining areas posted declines. London is still at the bottom of the table with average price falls of -3.9% followed by the North East and the South East, both at -3.1% annually.
- The latest Zoopla / Hometrack house price report (February 2024) notes that seven of the UK's regions/countries are reporting annual price rises, with five recording falls. The five regions with falling average house prices are the East Midlands (-0.8%), East of England (-2.1%), London (-0.8%), South East (-1.9%) and the South West (-1.7%).

Residential lettings

Supply and Demand

- The level of tenant demand continues to outstrip supply in the private rented market, according to ARLA PropertyMark's February report (on January data). On average there are a recorded 8 new tenant applicants per branch for each available property. This translates to an overall number of new tenants registered per branch of 97, up sharply from 63 in December.

- According to Zoopla and Hometrack's March rental market report, tenant demand is cooling slightly, with enquiries per available property dropping from a peak of 40 in 2021 to just over 15 currently. This figure is still double what it was prior to the pandemic period.
- Over to the RICS market survey and tenant demand rose again in the latest survey period with a net balance of +16%. This figure has eased from +47% just six months ago. On the other hand, landlord instructions continued its run of 19 successive months of negative readings at -17%.

Rents and rental growth

- The pace of rental growth slowed again in February albeit only marginally, moving to 7.4% from 7.5% the month before, according to HomeLet's latest report.
- Regionally, the East Midlands is still showing above-average growth of nearly 10%, followed by the West Midlands (9.3%), the South East (8.9%) and Scotland (8.8%). Greater London rental growth reached 4.8%, the lowest increase of all the regions and countries but up from last month's 4.6% (HomeLet).
- The latest rental report from Zoopla / Hometrack (March) further supports the slowing pace of rental growth. They note that average UK rents grew by 7.8% annually, down from 11% over the same period one year ago and the lowest rate of growth for two years.
- The latest RICS survey revealed that while survey participants still expect rent rises over the near-term, at +37% this figure is moderating somewhat. Just four months ago the figure was +61%.

HM Treasury Forecasts for the UK Economy, March 2024

Sources: HM Treasury Consensus Forecasts (March 2024 and February 2024 (long-term forecasts))

	2024	2025	2026	2027	2028
Official Bank Rate (%)	4.44	3.46	3.29	3.18	3.04
House price inflation (annual, %)	-1.0	1.8	-2.2	2.1	5.0
CPI inflation rate (annual average, %)	2.1	2.1	2.0	2.1	2.1
Unemployment rate (%)	4.3	4.3	4.6	4.7	4.9
GDP (annual, %)	0.3	1.2	1.7	1.7	1.7
Average earnings growth (annual, %)	4.0	3.0	3.2	3.3	3.2

Select Market Indicators, latest versus previous data

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

	Current	Previous	Direction of change
GDP monthly	0.2%	-0.1%	↑
Inflation rate (CPI)	3.4%	4.0%	↓
Interest rate	5.25%	5.25%	↔
Employment rate	75.0%	75.0%	↔
Unemployment rate	3.9%	3.8%	↑
Weekly earnings growth, regular pay (excl bonuses)	6.1%	6.2%	↓
S&P Global UK Manufacturing PMI	47.5	47.0	↑
S&P Global UK Services PMI	53.8	54.3	↓
S&P Global UK Construction PMI	49.7	48.8	↑
Retail sales volume (monthly % change)	0.0%	3.6%	↓
GfK Consumer Confidence Index	-21	-21	↔
Bank of England mortgage approvals (monthly)	55,227	51,506	↑
Nationwide house price inflation (annual)	1.2%	-0.2%	↑
Halifax house price inflation (annual)	1.7%	2.3%	↓
Official UK House Price inflation (annual)	-0.6%	-2.2%	↑
Rightmove House Price Index (annual, asking)	0.8%	0.1%	↑
HomeLet Rental Index (annual)	7.4%	7.5%	↓
£ Sterling: \$ USD	\$1.27	\$1.26	↑
£ Sterling: € Euro	€1.17	€1.17	↔
Brent Crude Oil (USD)	\$85.70	\$82.88	↑
Gold (USD)	\$2,167.87	\$2,018.35	↑
FTSE 100	7,955.11	7,692.28	↑
UK 5 Year Gilt Yield	3.8580	4.2250	↓

Official House Price data, HM Land Registry, January 2024

Sources: HM Land Registry

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
Winchester	£504,924	1.1%	7.3%
Leeds	£234,948	0.1%	0.6%
North Northamptonshire	£266,376	0.8%	-0.5%
South Cambridgeshire	£426,889	-0.9%	-0.6%
North Yorkshire	£273,553	0.3%	-0.6%
Bath and North East Somerset	£420,545	-0.6%	-0.7%
Somerset	£295,848	0.5%	-0.9%
Oxford	£440,092	-0.3%	-1.0%
Devon	£325,043	-1.1%	-1.9%
Cambridgeshire	£338,094	-0.9%	-2.0%
West Northamptonshire	£288,492	0.1%	-2.1%
West Oxfordshire	£378,676	-0.9%	-2.3%
Vale of White Horse	£396,268	-0.8%	-2.4%
Wiltshire	£323,516	-0.5%	-2.5%
Dorset	£348,971	-0.4%	-2.6%
Cambridge	£476,112	-3.0%	-2.7%
Cornwall	£300,974	0.4%	-2.8%
Suffolk	£289,534	-0.5%	-3.2%
West Berkshire	£398,095	-0.6%	-3.8%
South Oxfordshire	£459,576	-1.0%	-4.5%
York	£299,369	-0.4%	-5.5%

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
Scotland	£190,328	1.3%	4.8%
Northern Ireland	£177,611	0.0%	3.4%
North West	£215,082	-0.6%	1.0%
West Midlands region	£248,758	0.6%	0.6%
South West	£316,879	1.5%	-0.6%
United Kingdom	£281,913	0.5%	-0.6%
Yorkshire and The Humber	£203,571	-0.7%	-0.7%
Wales	£213,063	-0.1%	-0.8%
England	£298,575	0.4%	-1.5%
East Midlands	£240,427	-1.4%	-1.9%
East of England	£336,502	1.2%	-2.2%
South East	£373,177	0.6%	-3.1%
North East	£154,948	-1.7%	-3.1%
London	£517,726	2.5%	-3.9%

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£517,726	2.5%	-3.9%
Prime Central London	£1,066,982	-0.8%	-16.6%
South West London	£695,061	-0.4%	-4.0%

Official House Price data, HM Land Registry, January 2024

Sources: HM Land Registry

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Hackney	£597,973	1.6%	1.8%
Richmond upon Thames	£747,929	-0.7%	0.8%
Greenwich	£449,502	2.3%	0.3%
Brent	£532,273	4.2%	0.0%
Waltham Forest	£503,705	5.0%	-0.2%
Southwark	£514,320	2.4%	-0.9%
Haringey	£579,451	3.7%	-1.1%
Merton	£566,968	1.0%	-1.4%
Bromley	£504,764	1.2%	-1.6%
Wandsworth	£612,612	0.1%	-1.8%
Redbridge	£478,234	0.9%	-1.9%
Barnet	£579,029	-0.1%	-2.9%
Kingston upon Thames	£541,019	-1.2%	-3.2%
Havering	£419,290	1.2%	-3.5%
Newham	£399,951	-4.1%	-3.6%
Islington	£659,560	-5.0%	-3.7%
London	£517,726	2.5%	-3.9%
Tower Hamlets	£480,719	2.2%	-3.9%
Enfield	£430,369	-0.4%	-3.9%
Lewisham	£435,010	-2.3%	-4.0%
Bexley	£391,782	1.0%	-4.3%
Hounslow	£460,910	0.5%	-4.3%
Harrow	£502,774	-0.1%	-4.5%
Lambeth	£515,515	-1.4%	-4.8%
Hillingdon	£442,267	-1.5%	-5.6%
Sutton	£420,223	-1.7%	-6.1%
Camden	£797,248	-7.0%	-6.6%
Croydon	£392,498	-0.5%	-7.6%
Ealing	£515,353	-1.3%	-7.6%
Barking and Dagenham	£322,220	-4.1%	-7.9%
Hammersmith and Fulham	£724,641	-0.4%	-11.0%
Kensington And Chelsea	£1,197,249	-0.2%	-12.3%
City of Westminster	£936,715	-1.5%	-20.9%
Outer London	£475,872	0.3%	-3.6%
Inner London	£586,090	-0.8%	-5.6%

HomeLet Rental Index, February 2024

Source: HomeLet Rental Index

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
East Midlands	£886	0.6%	9.8%
West Midlands	£951	0.6%	9.3%
South East	£1,343	-0.4%	8.9%
Scotland	£913	0.8%	8.8%
UK (excluding London)	£1,063	0.4%	8.1%
East Of England	£1,215	0.8%	8.1%
UK	£1,262	0.2%	7.4%
Yorkshire & Humberside	£852	0.0%	7.3%
South West	£1,165	1.7%	6.7%
Wales	£848	-0.9%	6.0%
North West	£1,008	0.6%	6.0%
Northern Ireland	£832	-1.1%	5.9%
North East	£665	1.5%	5.7%
Greater London	£2,070	-0.5%	4.8%

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 divisional teams are renowned for their quality of service, expertise and the **simply better property advice** they offer their clients.

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