

RESIDENTIAL BRIEFING NOTE APRIL 2018

MARKET OVERVIEW AND BREXIT WATCH

You will note that some of the recent economic data below is a little less than... encouraging this month. Output, services and production are all just stumbling along. This may well mean that Q1 GDP figures (preliminary estimates due 27 April) come in even lower than the already-low 0.3% MPC forecast. However, many of these figures are weather-related and, with luck, may just push production and output into the second quarter. The data may also put into question whether the MPC will vote to increase interest rates in May; almost all indications were that rates would rise by 0.25bps. However, consumer confidence, wages and employment figures have all come in much more optimistic, so the MPC may think that consumers can cope with the rise, despite the wider disheartening data.

There is growing evidence that progress on Brexit-related issues and the agreed transition agreement over the last few months has led to increased optimism and confidence in the business community. A recent Deloitte survey indicates that business confidence has edged up slightly with higher levels of optimism and less negativity surrounding the long-term effect of Brexit, all being noted. The CBI Business Optimism index also showed substantial positivity, jumping to 13 during the first quarter of the year, up substantially from minus 11 in the previous quarter. Concern over Brexit-related effects may have waned but they now appear to have been replaced with UK growth being seen as the primary headwind facing businesses going forward. With such a tight labour market (employment levels remain at historic highs) and skills shortages and recruitment difficulties still being cited across many sectors, it is easy to see why industry might be concerned about where growth will come from in the near term.

UK ECONOMIC BACKDROP

- Latest retail sales figures (March) show a disappointing **decline of 1.2% with the largest downward contribution coming from a fall of nearly 5% in petrol sales; this could almost directly be related to the extreme weather** conditions towards the end of March, which negatively impacted travel. This is a trend which we will see in much of the rest of the economic data for

March and early April.

- Encouragingly, the latest GfK **Consumer Confidence figures indicate a rise to -7 in March (latest data), up from -10 last month.** All five sub-sectors increased during March **with Personal Financial Situation again showing the most positivity** at +3, compared with the General Economic Situation which measures -26. Some positive movement on the Brexit front as well as wage increases finally on the horizon appear to be boosting consumers' confidence overall. As discussed last month, strong consumer confidence will undoubtedly result in a boost to the economy so this reassuring sentiment can only be a good thing.
- March figures for **Markit / CIPS Manufacturing PMI again indicates little change over February's (revised) figure of 55.0, coming in at 55.1** in March. Nevertheless this is still above consensus expectations of 54.7 and manufacturers posted a **positive outlook** with 55% indicating they were expecting output to expand over the next 12 months. Further, manufacturers **cost pressures appears to be easing** as inflation on input prices fell sharply.
- Meanwhile the **UK Construction PMI (Markit / CIPS) index for March fell to 47 in March**, down from 51.4 the previous month. The downturn was mainly due to the severe weather and **snow-related disruption with large engineering projects being particularly negatively impacted.** New orders however also fell although encouragingly employment growth in the sector increased while business expectations showed a nine-month high.
- The **Services sector - according to the latest Markit / CIPS PMI survey - also appears to have taken a (at least partially) weather-related hit from The Beast from the East.** The survey indicates a sharp fall from 54.7 in February to 51.7 in March, and much weaker than most forecasts had predicted. Both new orders and business optimism however were weak and job creation figures also fell in the sector survey. Indications are that the poor weather played at least some part in the downturn although Brexit-related concerns are still playing a part as well.
- The latest **Consumer Spending Index** (Visa, compiled by IHS Markit) (March data, April report) shows a further **decline in household spending through March. The poor weather again effected data with**

- a reduction of 2.1% annually**, marking the worst quarterly performance of consumer spending since Q4 2012. Both 'Face-to-Face' and 'eCommerce' data fell this month, though face to face sales fell more steeply.
- February's ONS data update on industrial, construction and trade output indicates a stuttering start to the year. As with the PMI index, **construction data shows the bad weather in February negatively affected output with a 1.6% drop month on month**. Industrial production registered a small increase of 0.1%, but again this was likely because of increased energy use due to the poor weather conditions. Manufacturing output also declined 0.2% on the month. On the positive side, **when poor weather effects output and production, it normally just postpones activity and so expect to see an equivalent pickup** in the coming months.
 - March's **inflation rate declined again to 2.5%** down from 2.7% last month. This is now **the lowest level since March 2017 and is largely a reflection of prices now rising less quickly** than they did at the same point one year ago. The largest downward contribution came from prices for clothing and footwear, mainly from women's clothing. Alcohol and tobacco also rose by less than one year ago but this was mainly a reflection of budgetary timings for tax changes, rather than actual price movements.
 - There is no MPC meeting in April and therefore no vote on interest rates. **Following last month's indications (two of nine voted for an immediate rate rise) and some robust signals from the economy, it is still strongly suspected that May's meeting will result in a 0.25 bps increase** in rates, the first of two that are expected this year.
 - April's ONS report on the Labour Force market (Dec 17 - Feb 18) shows some encouraging data as **the employment rate continues to confound other economic metrics and expectations, growing again this month to 75.4%** - the highest figure since records began in 1971. Again the **unemployment rate mirrored this move by declining to 4.2%**, the lowest since 1975 and down from 4.7% one year ago. Such a tight labour market has befuddled many analysts - traditional economic models suggest that such a strong labour market is unsustainable and yet UK employment keeps rising each month. At this rate wages should be increasing fairly steadily, so:-
 - Average **weekly earnings (Dec 17 - Feb 18) also posted strong figures, showing a rise of 2.8%**, up from 2.6% in the previous month (excluding bonuses, nominal rate). This marks the fifth consecutive month where wages have increased and **the first where wage growth was higher than inflation in over 12 months**. The strong labour and wage data will undoubtedly reassure the MPC that an interest rate rise in May is the right thing to do.
 - **The pound appears to be benefitting from the expectations of an interest rate rise next month as it**

continues its post-EU Referendum recovery. Against the Dollar (also subdued in its own right due to recent US trade policies and tariffs) the pound is now \$1.42 (as at 18 April), just 3% below where it was (\$1.48) in the days before the Referendum in June 2016. Against the Euro Sterling is indicating €1.15, slightly higher than it has been but nowhere near the same surge as we've seen against the US Dollar. This is because the **Euro itself has been buoyed recently by its own improving Eurozone economy**.

[\(Click to see the latest market indicators at the end of document\)](#)

RESIDENTIAL PROPERTY MARKET

Sale Prices and Rents

- **Nationwide house price indices for March has shown that inflation has held steady this month at 2.1%, down just slightly from 2.2%**. On a monthly basis prices indicated a marginal drop of 0.2%, slightly less than the (revised) decline last month of 0.4%. This means that according to Nationwide, average UK house prices are now £211,625. As it is now a full quarter, Nationwide also reports regional data reporting that the north south divide continues; for the fourth quarter in a row **the northern regions are reporting accelerated regional house price growth while the southern regions are indicating deceleration**. London shows the fastest decline at -1% this quarter, with the Midlands report growth of circa 4.7% and the strongest growth is coming from Wales at 6.1%.
- **Latest data from the Halifax House Price Index shows annual house price inflation up 2.7% in March**, a surprisingly hefty change over February's 1.8% growth. The average UK house price is therefore £227,871, the highest ever recorded by the Halifax. Furthermore, on a monthly basis prices were up a heady 1.5%, compared with the 0.5% monthly growth in February and the highest monthly rise since August 2017.
- Latest data from the HM Land Registry's official **UK House Price Index again records punchier house price inflation (February, latest data) with a 4.4% increase**, although this is down slightly from last month's (revised) 4.7% inflation. A -0.1% monthly decline was also recorded, bringing the average UK house price to £225,047.
- Regionally, it was **once again the story of the Midlands as the two regions posted the strongest annual increases** of 7.3% (West Mids) and 6.3% (East Mids). And again this month London posted the poorest data overall with an annual decline of 1%, **the first decline in London house prices since September 2009**.
- Turning to London in more detail it is mainly the **outer London boroughs which top the annual price growth**

charts (details in table below), while inner London boroughs all bring up the bottom five. Redbridge showed the strongest growth of 8.9%, followed by Barking & Dagenham (4.4%), Havering (4.2%) and Bexley (4.1%). This then again means that outer London grew more strongly this month at 1.9%, while inner London overall posted declines of -1.1% this month.

- In regional locations where Carter Jonas has a main presence, this month again sees **Northampton and Leeds top price growth at 7.3% and 5.7%, respectively**, with Wiltshire (4.9%) and Babergh (for Long Melford) (4.0%) also showing some robust growth. All told, nearly all areas bar Winchester, have seen positive price annual growth this month.
- What is noticeable in the tables below is that by and large those **areas where average house prices are lower have then had the strongest price growth**, while those areas where average house prices are higher, have seen the lowest price growth. **This further points to prices being out of sync with earnings and thus affordability in some areas may be suppressing any substantial price growth.**
- Latest survey results from the **RICS Residential Market Report (March) shows the Price Balance remains unchanged again this month.** London again shows the most negative feedback with a net balance of -47 indicating price declines, with the South East, East Anglia and the North East also indicating price declines. Nationally, **three month expectations for price growth remain flat but on a longer-term 12 month outlook price expectations are more positive for increased growth.**
- In **Rightmove's latest report (April), it was found that prices have risen by 1.6% year on year**, leading to an average asking price of £305,732. On a monthly basis, asking prices rose by just 0.4% in April over March, down from 1.5% last month. **Rightmove notes that March was the busiest month ever with over 142million visits to the site**, showing that demand is still incredibly strong.
- **On the rental market, Rightmove** has released its first quarter UK Rental Trends Tracker, indicating that **average asking rents have increased by 0.9% (annually) across the UK (excl London), while London rents have declined 0.1% over the same period.** On a regional basis, all areas bar Greater London and the North East (-0.6%) show growth, with the East Midlands (2.6%) and West Midlands (1.9%) leading the growth.
- **The latest PRS report from ARLA (February) has found that the rate of tenants experiencing rate increases rose again but only marginally, to 20% from 19% previously.** This figure however is less than the same month in each of the last two years when 25% (2017) and 29% (2016) of tenants

reported rate increases.

- **HomeLet's Rental Index for March (latest report) notes that rents in the UK rose by 0.9% in March over the same month on year prior to £912 pcm, or £759 excluding London.** The Index notes that rents rose in 10 of the 12 UK regions, with just Wales and the North East posting annual declines. Strongest gains were found in Scotland (5.6%) and East Midlands (3.3%) and West Midlands (2.4%).
- According to **HomeLet's London data, the city has seen annual growth of 1.5% to an average of £1,569 pcm.** Of the areas where CJ has a main presence, Wandsworth saw declines of 1% (£1,662 pcm), Chelsea, Fulham, Hammersmith & Kensington rents grew by 1.6% (£1,852 pcm), while Westminster posted a hefty 4.5% annual growth to an average of £2,132 pcm.

[\(Click to see detailed house price and rent tables\)](#)

Activity

- HMRC's **property transaction figures for February 2018 shows a very slight dip in residential transactions (seasonally adjusted), to 101,010 down 0.3%** from a revised January figure. Furthermore, this is again on-par with figures from the same month one year ago (101,710).
- February's mortgage data from UK Finance (latest release) shows a disappointing fall in house purchase approvals, **recording 38,120 loans approved during the month for house purchases, down 48% from January's level of 40,031.** This brings house purchase lending on an annual basis down 11% over last year and **figures are now at the lowest level in three years, according to UK Finance.** It is possible that November's interest rate rise, as well as media coverage suggesting further rises to come, may be putting buyers off as affordability issues continue to constrain.
- **Bank of England mortgage lending data seems to corroborate UK Finance figures, indicating a decline in February of 4.8% in house lending mortgage approvals to 63,910.** This is also down over 7% from the same time last year. As this author speculated in last month's edition, the uptick seen in January was unlikely to indicate a further trend through the year, and this has proven to be correct.
- The latest **UK Residential Market Survey by RICS (March)** shows momentum continuing to suppress with activity indicators still showing negative across the UK. Nevertheless, and as has been the case for a while now, most of the **weakness stems from London and the South East. This is the 12th consecutive month where the survey has shown an overall decline in demand** for housing. New buyer enquiries is at minus 17, with new sales instructions also at minus 17. All told it seems that buyers and sellers are in a

standoff with buyers reluctant to increase offers and sellers reluctant to cut prices, with the result being **weak transactional activity and few available homes on the market.**

- **Rightmove's latest House Price Index report (April) found that average stock per agent across the UK has risen slightly to 45**, up from 43 last month. The site also notes that the average 'time to sell' a house has dropped back to 61 days, down from a high of 72 in January.
- Looking at the rental market, the latest report from **ARLA (February) indicates that the average supply of rental stock per branch dipped again this month, down another 5%** with 175 properties per branch compared with 184 in January. This is the lowest overall average since May 2016. Supply was recorded highest in Scotland (254 per branch) and lowest in London (128 per branch). **Demand also declined, decreasing by 13% with letting agents registering an average of 61 new hunters per branch, down from 70 last month.**

Other

- Housing Secretary, Sajid Javid, announced that agents in the UK will be required to hold a professional qualification in order to practice. Details are still limited on how and when this will be rolled out. The news came as a **raft of measures were announced including limiting 'gazumping' and a timeline for local authority searches** to be completed. The measures were introduced as it was found that too many house sales were falling through as a result of untimely completions. This is something that this author has written about previously whereby **the conveyancing system and the increasingly long time between offer and exchange has become so protracted that many buyers and vendors simply pull out of deals, because of frustration.**

Figure 1 Five-year **Economic** Forecast Tables, Experian, April 2018 (latest data)

Source: Experian, UK: core macroeconomic forecasts (annual)

Metric	2018	2019	2020	2021	2022
CPI	2.45%	1.98%	2.00%	2.00%	2.00%
RPI	3.33%	2.85%	3.00%	3.27%	3.35%
Interest Rates (Bank Rate)	0.67%	0.98%	1.33%	1.83%	2.55%
House Price Growth	2.04%	2.73%	3.51%	3.37%	3.98%
GDP Growth	1.44%	1.50%	1.52%	1.68%	1.71%

Figure 2 Key Market Indicators, latest data versus previous data

Sources: ONS (unless otherwise indicated)

Market Indicators	Current	Previous	Direction of change
GfK Consumer Confidence Index	-7	-10	↑
Retail sales volumes (monthly % change)	-1.2%	0.8%	↓
IHS Markit / CIPS Manufacturing PMI	55.1	55.0	↔
IHS Markit / CIPS Construction PMI	47.0	51.4	↓
IHS Markit / CIPS Services PMI	51.7	54.7	↓
Visa's UK Consumer Spending Index	-2.1%	-1.0%	↓
Inflation rate	2.5%	2.7%	↓
Interest rate	0.5%	0.5%	↔
Employment rate	75.4%	75.3%	↑
Unemployment rate	4.2%	4.3%	↓
Weekly earnings growth (not incl bonuses)	2.8%	2.6%	↑
£ Sterling : \$ USD	\$1.42	\$1.40	↑
£ Sterling: € Euro	€1.15	€1.14	↑
Nationwide annual house price inflation	2.1%	2.2%	↔
Halifax annual house price inflation	2.7%	1.8%	↑
Official House Price annual inflation (Land Registry)	4.4%	4.7%	↓

Figure 3 Official House Price data, HM Land Registry, February 2018

Source: HM Land Registry (February 2018, latest data)

London	Average Price	Monthly Change (%)	Annual Change (%)
Greater London	£471,986	-2.1%	-1.0%
Prime Central London	£1,228,736	-2.0%	-1.2%
South West London	£655,509	-0.9%	-3.0%

CJ Regional Locations	Average Price	Monthly Change (%)	Annual Change (%)
Northampton	£210,127	1.2%	7.3%
Leeds	£178,607	-0.1%	5.7%
Wiltshire	£274,981	-0.1%	4.9%
Babergh (for Long Melford)	£278,306	-2.2%	4.0%
Cambridgeshire	£290,600	-0.4%	3.8%
Bath and North East Somerset	£334,539	0.7%	3.5%
Harrogate	£281,394	-0.7%	3.3%
Oxfordshire	£355,526	0.8%	3.0%
West Berkshire	£348,138	-0.2%	1.7%
Cambridge	£425,323	-2.1%	0.8%
Oxford	£408,794	2.7%	0.7%
York	£239,187	-0.4%	0.6%
Winchester	£402,261	-1.6%	-0.1%

UK Regions	Average Price	Monthly change (%)	Annual change (%)
West Midlands	£177,048	0.8%	7.3%
East Midlands	£186,071	0.5%	6.3%
South West	£250,816	-1.1%	4.9%
Wales	£152,891	-0.4%	4.8%
North West	£158,152	1.6%	4.8%
United Kingdom	£225,047	-0.1%	4.4%
England	£242,176	0.2%	4.1%
East of England	£288,468	-0.4%	4.0%
South East	£322,489	-0.1%	4.0%
North East	£128,218	3.1%	3.3%
Yorkshire and The Humber	£155,385	-0.1%	3.1%
London	£471,986	-2.1%	-1.0%

Figure 3 Official House Price data, HM Land Registry, February 2018

Source: HM Land Registry (February 2018, latest data)

Note: Boroughs in orange indicate an Inner London borough.

London boroughs	Average Price	Monthly Change (%)	Annual Change (%)
Redbridge	£441,869	3.3%	8.9%
Barking and Dagenham	£293,180	0.2%	4.4%
Havering	£369,314	0.7%	4.2%
Bexley	£342,175	-0.4%	4.1%
Bromley	£452,616	0.8%	3.8%
Lambeth	£522,007	-0.4%	2.9%
Waltham Forest	£442,599	-0.8%	2.8%
Lewisham	£414,456	-0.2%	2.7%
Enfield	£395,969	0.2%	2.5%
Brent	£486,762	-2.1%	2.3%
Harrow	£474,862	1.4%	2.0%
Merton	£504,525	-0.1%	1.8%
Newham	£365,596	0.6%	1.7%
Kingston upon Thames	£498,753	1.8%	1.5%
Hillingdon	£419,325	2.4%	1.2%
Greenwich	£384,494	-1.5%	1.1%
Sutton	£370,719	-2.0%	1.0%
Islington	£626,701	-4.6%	0.7%
Ealing	£489,531	1.7%	0.0%
Croydon	£366,849	-0.8%	-0.1%
Hackney	£550,657	-1.2%	-0.2%
Kensington And Chelsea	£1,409,606	-3.5%	-0.2%
Haringey	£564,762	2.4%	-0.4%
Barnet	£537,851	0.8%	-0.5%
Southwark	£499,274	0.1%	-0.8%
Richmond upon Thames	£648,563	0.3%	-0.9%
Hounslow	£394,852	-2.2%	-1.4%
Camden	£812,815	-5.1%	-1.4%
City of Westminster	£1,047,866	0.0%	-2.4%
Wandsworth	£592,146	-0.8%	-2.6%
City of London	£784,657	-1.0%	-4.4%
Hammersmith and Fulham	£725,819	-2.0%	-5.0%
Tower Hamlets	£432,869	-3.3%	-7.9%
Inner London	£576,103	-1.2%	-1.1%
Outer London	£429,157	0.1%	1.9%

Figure 4 HomeLet Rental Index, March 2018
(£ per calendar month)

Source: HomeLet Rental Index, March 2018 (latest data)

Region	Rent (latest data)	Monthly change (%)	Annual Change (%)
Scotland	£644	1.9%	5.6%
East Midlands	£622	0.5%	3.3%
West Midlands	£676	0.4%	2.4%
North West	£689	0.1%	2.1%
Greater London	£1,569	2.1%	1.5%
UK	£912	0.7%	0.9%
Yorkshire & Humberside	£623	-0.3%	0.6%
East of England	£905	-0.2%	0.3%
South East	£995	0.3%	0.1%
South West	£799	-£1	0.1%
North East	£509	-2.1%	-2.5%
Wales	£596	0.5%	-3.2%

AN EXPLANATORY NOTE ON HM LAND REGISTRY DATA:

Land Registry data referenced, is monthly data. Prices and activity are subject to future and past revision as there is a lag on the registration of property sales. Further, transaction data lags average price data by two months, while average price data itself is 6-8 weeks behind publication date. Monthly data reflects only sales which occurred that month and price changes referenced are average prices for that month versus the same month one year prior.

For further information on how land registry compiles figures and what statistical methods are used, visit <http://landregistry.data.gov.uk/app/ukhpi>

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.

Residential Research

Leslie Schroeder
Senior Research Analyst
020 7529 1538
leslie.schroeder@carterjonas.co.uk

020 7518 3200
One Chapel Place, London W1G 0BG

© Carter Jonas 2018.

The information given in this publication is believed to be correct at the time of going to press. We do not however accept any liability for any decisions taken following this report. We recommend that professional advice is taken.

Carter Jonas Residential Research | Briefing Note, April 2018