

Residential Update and Outlook

June 2024

Market Overview

This month's dominating news story is undoubtedly the UK General Election, finally ending months of speculation with the post-election period bringing some much-needed certainty to the markets. While historical data suggests a weak link between general elections and house price growth directly, a stable post-election period could potentially boost both demand and supply.

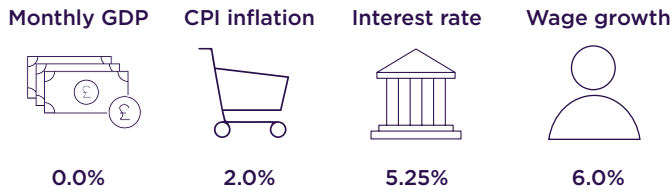
However, the most significant factor impacting the housing market over the past year and a half has undeniably been interest rate hikes. These increases have undoubtedly dampened demand from potential buyers, leading to somewhat sluggish house price growth despite a relative stability in prices. The recent MPC vote to keep Bank Rate at 5.25% however was a vote of 7-2 in favour of a hold with an expectation that a cut may be on the way in August. Any fall in interest rates will help buoy demand which we expect to improve in the latter half of the year.

Nationwide and Halifax both reported subdued price growth this month, while transaction activity did see a 5% increase month-on-month. In the private rental market rental growth eased again although at 8.7% annually this is still well above the historic average and inflation generally.

Key Points

- *There was no growth in GDP during April, down from 0.4% in March. Although the services sector saw growth of 0.2% the rainy weather during the month held the construction sector back, falling -1.4% in the month.*
- *Inflation reached its lowest level in nearly three years, finally moving to the Bank of England's target rate at 2.0%. Within that though services inflation remains high, although food prices have fallen.*
- *The slightly improved weather in May boosted retail sales volumes which increased by 2.9% over April. April's figure was also upwardly revised although still negative at -1.9% but May's figure has at least offset this decline.*
- *GfK's Consumer Confidence Index increased three points to -14 in June. While still in negative territory as many consumers continue to battle with the high cost of living, it is well above the record low of -49 set in September 2022.*
- *Labour market data continues to show signs of easing with the unemployment rate rising to 4.4%, the employment rate falling slightly, and both payrolled employee figures and total job vacancies also declining.*
- *Of the three sectoral Purchasing Managers Indices (PMI) the manufacturing and construction sectors saw monthly rises with the services sector declining slightly. Nevertheless, all three have stayed above '50', indicating expansion. This is only the second time the manufacturing sector PMI has been above 50 in nearly two years.*
- *More signs of a cautiously stable housing market this month with Halifax and Nationwide recording slow rates of growth of 1.5% and 1.3%, respectively. Mortgage approvals and total transactions are also rising, with approvals up 25% over the same month last year.*
- *Official house price index data from the ONS recorded a slight acceleration in growth in the 12 months to April, with average prices rising by 1.1%, up from a downwardly revised 0.9% in March.*
- *Several measures from the RICS Residential Survey show a stumbling in the sales market with buyer enquiries, agreed sales, new instructions and house price measures all deteriorating compared with the month before.*
- *Zoopla's latest report on the private rented sector finds that rental growth appears to be easing, averaging around 6.6% over the last year, with tenant demand also falling, down by around 25% compared with the same time last year.*
- *Although the pace of rental growth has come down again according to the latest Price Index of Private Rents (PIRP) from the ONS, at 8.7% (down from 8.9% last month) this is still well above the long-term historic average.*

Economic backdrop



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

The Macroeconomy

- Monthly gross domestic product (GDP) is estimated to have shown no growth in April (0.0%), down from 0.4% in March. This was still above market expectations of a -0.1% fall and should lead to a 0.4% quarterly rise during Q2. Disaggregated, the services sector grew by 0.2% in April, the fourth month of growth in a row, while production and construction declined by -0.9% and -1.4%, respectively. The unusually high amounts of prolonged rain during the month likely contributed to the construction sector fall.
- Headline inflation has fallen back again in the latest reading (12 months to May), moving to 2.0% and again the lowest rate since July 2021. Services inflation though remains elevated, down only to 5.7% in May with much of this coming from persistently rising airfares and accommodation prices. The largest downward contribution to the headline figure came from food with prices falling this year.
- Bank Rate was held at 5.25% in June's meeting of the Monetary Policy Committee (MPC). The vote was seven to hold with two voting to cut the rate, although the minutes of the meeting said the decision was 'finely balanced'. This may further point to a rate cut in their next meeting in August when they will also have the benefit of an updated quarterly Monetary Policy Report. With headline inflation now back to the Bank's target rate it is widely expected we will see two cuts to interest rates by the end of the year.

Labour and employment

- Another month of evidence that the UK labour market is easing as the unemployment rate rose again in the three months to April, to 4.4%, up from 4.3% last month. The employment figure declined, to 74.3%. As we have repeated in our last few publications, recent data from the Labour Force Survey should be treated with caution due to low sample sizes achieved over recent months. This however doesn't change the general direction of travel that has been seen over the last few months.

- The total number of payrolled employees for May showed a decline of around 3,000 on the month although it rose by around 0.6% over the last year. The number of job vacancies also fell, down by 12,000 during the last three months to 904,000 and the 23rd consecutive period of falling vacancies.
- Excluding bonuses average wages rose by 6.0% in the three months to April (year on year), unchanged from the previous three-month period. Average earnings growth in the public sector was slightly stronger at 6.4% while private sector growth averaged 5.8%.

Market indicators

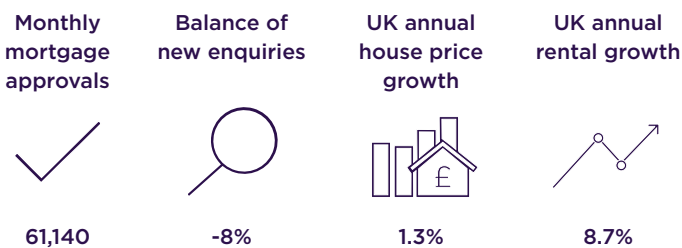
- The UK Manufacturing PMI (S&P Global) rose to 51.2 in May, its highest reading since July 2022 and only the second time it has surpassed '50' since then. This expansion reflects rising levels of new work orders, improved market conditions, and a boost in new business. However, new export orders continued their downward trend, marking the 28th consecutive month of decline. Despite this, manufacturers remain optimistic, with a near two-year high of 63% of companies expecting to expand over the coming year.
- The UK Services PMI however declined in May, down from 55 in April to 52.9 currently. Despite this, it is the seventh month in a row of expansion in this sector. New order growth continues, fuelled by rising business and consumer confidence. Employment levels also saw a slight increase, though concerns about rising costs are delaying further hiring. On a positive note, input inflation has fallen to its lowest level in three years, and forecasts for future business activity remain high.
- Finally, the construction sector PMI rose again in May, moving to 54.7 from 53.0 in April and now the highest reading from this sector since May 2022. Activity, new business, purchasing, and employment rose the fastest in two years while supply-chain issues continued to improve which contributed to input cost inflation slowing slightly. Also, for the first time since May 2022, all three sub-categories saw activity increase during the month, with housing returning to growth albeit marginally.

Consumer demand and sentiment

- Retail sales volumes rose by 2.9% in May (month on month), above consensus forecasts and a marked improvement from the (upwardly revised) -1.8% fall in April. Strong sales volumes were driven by non-food shops which saw a rise of 3.5% with clothing sales in particular seeing a strong boost of 5.4% month on month. Household goods sales increased by 3.5% while food sales posted a 1.2% monthly rise.

- The gradual rise in consumer confidence continued into June with the overall figure from GfK's series moving to -14, up three points over May's figure. Confidence in consumers' personal financial situation declined by three points to +4 but this is not far off the long-run pre-COVID average of +5. As wage growth continues, we expect that confidence will also continue. Having said that, the Major Purchase Index is still firmly in negative territory at -23 although this too rose three points this month.

Residential market



Sources: Bank of England, RICS, Nationwide, ONS

Residential sales

Mortgages and transactions

- April saw overall mortgage approvals remain virtually unchanged at 61,140, according to Bank of England's latest data. This is on par with the 61,263 (revised) approvals in March and reflects the overall mood of the market which can be described as cautious but stable. Year to date total approvals is just over 238,000 which is 30% more than the same period last year.
- Total transaction volumes jumped 5% in April to reach a total of 90,430. This is the highest number of residential sales since March last year and is the fourth month in a row of rising activity. As sales completions lag mortgage approvals by a few months we expect this to level out again in the coming months. We believe that buyers are still waiting for more certainty on interest rate declines which are anticipated this summer. Once this happens approvals and transaction volumes will pick up in the latter half of the year.
- Mortgage rates have somewhat stabilised over the last month with very little movement to speak of. The current rate of 5.43% is only down marginally from 5.46% four weeks ago (85% LTV, 2 year fixed).

Supply and demand

- The RICS residential survey shows a slight stumble in the sales market this month with both supply and demand deteriorating compared with the month before. New buyer enquiries moved to a net balance of -8% from -1% in April while the new instructions measure moved to +16% from +23% the month before. Having said that, the survey goes on to report that compared with the

same time last year, the number of market appraisals being undertaken is up, with a net balance of +17% of contributors reporting this.

- Rightmove also reports some encouraging figures in the sales market with the number of agreed sales now 6% above the same four-week period in 2023 while buyer demand is also elevated, up 5% compared with last year.

UK prices and price growth

- UK house prices rose by 0.4% in May (month on month), offsetting the -0.4% fall during April, according to Nationwide's latest index report. On an annual basis this too increased, rising by 1.3% over the last 12 months, up from +0.6% the month before. Despite ongoing affordability pressure from rising mortgage rates, the sales market remains stable and resilient. The bank goes on to say that historically, both during and after general elections, house price trends do not seem to be impacted to any great extent.
- According to Halifax house prices remained virtually unchanged in May, moving down by -0.1% over the month. Annually, prices were found to have risen by 1.5%, up from 1.1% in April and the sixth consecutive month of rising house prices. On a regional basis, prices grew the most in the North West over the last year (+3.8%) while the East of England saw the largest decline at -0.8%. In London, house prices grew by a negligible +0.2% in the 12 months to May.
- According to Rightmove's June housing index, asking prices rose by an average of 0.6% annually, unchanged from May and marking 0% monthly growth. The report says this 'no change' in prices between May and June is reflective of a seasonal trend for this time of year. They note that less expensive and more northerly regions of the country are witnessing stronger price growth with areas across the East of England and London seeing slower growth.
- The Official House Price Index also indicated growth in their latest figures (April), recording a 1.1% increase, up slightly from (a downwardly revised) figure of 0.9% in March. On a monthly basis there was a 0.3% increase leading to an average UK house price of £281,373. Once again Scotland lead the country data with a 4.5% house price increase recorded, followed by Northern Ireland at 2.6%, England (0.6%) and Wales (0.4%).
- RICS residential survey participants were a little more pessimistic this month on house prices with the net balance moving to -17% compared with -7% the month before, suggesting that prices moved slightly downwards over the month. Looking ahead the picture is more positive with a net balance of +41% of contributors believing that prices will rise over the coming 12 months, the most elevated this figure has been since April 2022.



Regional prices and price growth

- Regionally, the official ONS house price data showed seven of the nine regions recording positive growth with just the South East (-0.4%) and London (-3.9%) still in negative growth territory. Top of the table was the North West with 3.8% annual price growth followed by the West Midlands at 2% and the South West at 1.8%.
- Of the 33 London boroughs, just a handful (five) indicated positive house price growth in the 12 months to April. All other areas recorded no growth or declines with prime central areas such as Kensington and Chelsea (-17.6%), Hammersmith and Fulham (-16.1%) and Westminster (-14.7%) still showing strong rates of decline. It is worth noting that these areas do see some strong monthly house price volatility.
- Of our Carter Jonas office locations, it was again West Oxfordshire that recorded the strongest annual price growth at 7.8% followed by Cambridge at 5.2% and the Vale of White Horse at 5.1%. Of the 19 locations we regularly track eight showed annual price declines this month, including West Berkshire (-3.2%), York (-3.1%) and Oxford (-2.0)

Residential lettings

Supply and Demand

- Following two months of falling registrations, tenant demand picked up again in April, according to ARLA PropertyMark's latest report. Registrations increased from 82 in March to 90 in April. Supply levels rose very slightly, moving from an average of nine available properties to rent per member branch, to ten in April.
- Tenant demand also looks to have risen again in the latest RICS market survey with a net balance of +35% on this reading, compared with +12% in April. Landlord instructions looks largely unchanged with a net balance of -3% on this figure although this is the first time since August 2022 that this measure can be classed as 'neutral'.

- Zoopla's latest rental market report for June reports a narrowing supply and demand gap in the private rental market. Rental demand is down 25% compared with the same period last year while the level of supply has increased by around 18% (average number of homes for rent per agent).

Rents and rental growth

- Rental price growth eased slightly again in the 12 months to May, with the UK average moving to 8.7% down from 8.9% the month before, according to the latest PRIP supplied by the ONS. On a regional and country basis London rents are still growing at double-digits, rising by 10.1% annually and leading to average rents in the capital now £2,086 per calendar month. Scotland and the North West were next at 9.2% and 9% growth, respectively. Even at the bottom of the table rents are still rising at a much higher rate than historical averages with the South West and East of England seeing 7.1% rises followed by the North East at 6.0%.
- According to Zoopla's latest rental market report annual UK rental growth slowed to its lowest level in over 2½ years, at 6.6%. This time last year rental growth was in the double digits, where it remained for many months. On a regional level London recorded the greatest slowdown with rental growth here averaging 3.7% while the largest increases were found in the North East (9.5%) and Scotland (9.3%).
- There was little change in rental growth expectations from RICS survey respondents this month with a net balance of +35%, up only slightly from the month before. This suggests rental growth will continue, but that the pace of growth is decelerating.

HM Treasury Forecasts for the UK Economy, June 2024

Sources: HM Treasury Consensus Forecasts June 2024 (long-term forecasts)

	2024	2025	2026	2027	2028
Official Bank Rate (%)	4.52	3.63	3.67	3.32	3.23
House price inflation (annual, %)	-1.2	1.6	2.6	3.8	3.7
CPI inflation rate (annual average, %)	2.2	2.2	2.1	2.4	2.3
Unemployment rate (%)	4.4	4.4	4.4	4.4	4.4
GDP (annual, %)	0.6	1.2	1.7	1.7	1.6
Average earnings growth (annual, %)	4.0	2.9	3.1	3.2	3.1

Select Market Indicators, latest versus previous data

Sources: ONS (unless otherwise indicated) (final six indicators retrieved 21 June)

	Current	Previous	Direction of change
GDP monthly	0.0%	0.4%	↓
Inflation rate (CPI)	2.0%	2.3%	↓
Interest rate	5.25%	5.25%	↔
Employment rate	74.3%	74.5%	↓
Unemployment rate	4.4%	4.3%	↑
Weekly earnings growth, regular pay (excl bonuses)	6.0%	6.0%	↔
S&P Global UK Manufacturing PMI	51.2	49.1	↑
S&P Global UK Services PMI	52.9	55.0	↓
S&P Global UK Construction PMI	54.7	53.0	↑
Retail sales volume (monthly % change)	2.9%	-1.8%	↑
GfK Consumer Confidence Index	-14	-17	↑
Bank of England mortgage approvals (monthly)	61,140	61,263	↓
Nationwide house price inflation (annual)	1.3%	0.6%	↑
Halifax house price inflation (annual)	1.5%	1.1%	↑
Official UK House Price inflation (annual)	1.1%	0.9%	↑
Rightmove House Price Index (UK, annual, asking)	0.6%	0.6%	↔
Price Index of Private Rents (UK, annual)	8.7%	8.9%	↓
£ Sterling: \$ USD	\$1.27	\$1.27	↔
£ Sterling: € Euro	€1.18	€1.17	↑
Brent Crude Oil (USD)	\$85.44	\$81.28	↑
Gold (USD)	\$2,364.55	\$2,338.63	↑
FTSE 100	8,253.42	8,303.26	↓
UK 5 Year Gilt Yield	3.8975	4.1955	↓

Official House Price data, HM Land Registry, April 2024

Sources: HM Land Registry

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
West Oxfordshire	£398,625	2.3%	7.8%
Cambridge	£494,294	1.9%	5.2%
Vale of White Horse	£410,219	1.1%	5.1%
Winchester	£494,459	2.9%	4.4%
Bath and North East Somerset	£429,644	1.3%	3.9%
South Oxfordshire	£497,099	4.4%	2.6%
North Yorkshire	£271,210	-1.0%	2.0%
Leeds	£233,737	-0.8%	1.7%
Cambridgeshire	£343,314	1.0%	0.7%
Devon	£323,222	0.5%	0.6%
Wiltshire	£326,337	-0.3%	0.3%
Dorset	£351,551	-0.5%	-0.7%
Somerset	£286,709	-0.5%	-0.8%
Suffolk	£284,808	-1.0%	-1.1%
South Cambridgeshire	£422,602	0.3%	-1.8%
Cornwall	£299,846	-0.1%	-1.9%
Oxford	£446,424	-0.1%	-2.0%
York	£309,934	-0.5%	-3.1%
West Berkshire	£392,428	1.6%	-3.2%

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
Scotland	£190,345	1.3%	4.5%
North West	£216,714	0.7%	3.8%
Northern Ireland	£178,499	0.0%	2.6%
West Midlands region	£246,292	0.4%	2.0%
South West	£317,911	1.1%	1.8%
United Kingdom	£281,373	0.3%	1.1%
East Midlands	£242,132	0.7%	1.1%
North East	£158,133	0.6%	1.0%
England	£298,229	0.3%	0.6%
East of England	£335,448	-0.7%	0.4%
Wales	£208,184	-2.1%	0.4%
Yorkshire and The Humber	£203,110	-1.4%	0.2%
South East	£375,067	1.4%	-0.4%
London	£501,880	-0.2%	-3.9%

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£501,880	-0.2%	-3.9%
Prime Central London	£1,039,625	-3.1%	-16.1%
South West London	£704,268	0.8%	-5.4%

Official House Price data, HM Land Registry, April 2024

Sources: HM Land Registry

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Hackney	£611,025	4.9%	3.5%
Newham	£402,435	0.7%	2.7%
Harrow	£513,235	0.9%	2.5%
Wandsworth	£620,731	1.0%	1.9%
Greenwich	£442,117	-2.0%	1.2%
Hounslow	£449,866	-1.3%	0.0%
Bexley	£404,557	1.1%	-0.1%
Croydon	£398,216	1.2%	-0.7%
Hillingdon	£445,707	-1.1%	-0.7%
Islington	£668,635	-1.2%	-1.3%
Southwark	£467,676	-2.4%	-1.4%
Richmond upon Thames	£725,536	-1.2%	-2.0%
Redbridge	£458,781	-1.4%	-2.2%
Barking and Dagenham	£333,425	2.1%	-2.3%
Ealing	£514,465	-1.1%	-2.5%
Waltham Forest	£477,622	-2.2%	-2.6%
Merton	£553,367	1.5%	-2.8%
Bromley	£485,561	-1.2%	-3.1%
Kingston upon Thames	£532,281	0.9%	-3.4%
Barnet	£573,010	-1.6%	-3.4%
Sutton	£420,492	-3.1%	-3.7%
London	£501,880	-0.2%	-3.9%
Havering	£406,085	-2.4%	-4.0%
Lewisham	£425,774	-0.2%	-4.1%
Brent	£488,462	-4.3%	-4.4%
Tower Hamlets	£440,574	1.2%	-5.7%
Enfield	£406,161	-2.6%	-6.0%
Lambeth	£512,463	3.1%	-6.3%
Haringey	£523,150	-5.2%	-7.3%
Camden	£762,130	3.2%	-12.9%
City of Westminster	£969,527	3.1%	-14.7%
Hammersmith and Fulham	£766,538	2.6%	-16.1%
Kensington And Chelsea	£1,109,723	-8.0%	-17.6%
Outer London	£467,468	-1.0%	-2.3%
Inner London	£574,168	0.4%	-5.6%

Official Price Index of Private Rents, ONS, May 2024

Source: Office for National Statistics

CJ Regional Location	Average Rent (£ pcm)	Monthly Change	Annual Change
York	£1,103	0.6%	12.9%
Vale of White Horse	£1,224	0.2%	9.1%
Winchester	£1,338	1.4%	8.1%
South Oxfordshire	£1,254	0.3%	7.8%
West Berkshire	£1,194	0.3%	7.7%
Cambridge	£1,647	0.3%	7.2%
South Cambridgeshire	£1,263	0.7%	7.1%
West Oxfordshire	£1,237	1.0%	6.8%
North Yorkshire	£774	0.4%	5.3%
Bath and North East Somerset	£1,549	0.3%	5.1%
Wiltshire	£931	0.3%	4.8%
Oxford	£1,659	0.0%	4.5%

UK Country / Region	Average Rent (£ pcm)	Monthly Change (%)	Annual Change (%)
London	£2,086	0.8%	10.1%
Scotland	£957	0.5%	9.2%
North West	£835	0.7%	9.0%
East Midlands	£818	0.9%	8.8%
England	£1,301	0.6%	8.6%
Wales	£736	0.8%	8.6%
South East	£1,292	0.5%	8.1%
West Midlands	£868	0.7%	8.1%
Yorkshire and The Humber	£789	0.6%	7.5%
East of England	£1,143	0.5%	7.1%
South West	£1,118	0.5%	7.1%
North East	£667	0.2%	6.0%

London	Average Rent (£ pcm)	Monthly Change (%)	Annual Change (%)
London	£2,086	0.8%	10.1%
Prime Central London	£3,197	1.1%	10.0%
South West London	£2,262	0.8%	9.3%

Official Price Index of Private Rents, ONS, May 2024

Source: Office for National Statistics

Notes: Average rent is across all bedrooms and property types, per calendar month (pcm)

London Borough	Average Rent (£ pcm)	Monthly Change (%)	Annual Change (%)
Brent	£2,049	1.0%	32.7%
Greenwich	£1,794	0.7%	16.2%
Islington	£2,488	1.0%	15.0%
Hounslow	£1,696	0.5%	12.8%
Hackney	£2,332	1.8%	12.2%
Sutton	£1,417	1.4%	12.2%
Tower Hamlets	£2,229	0.9%	11.8%
Hillingdon	£1,405	0.7%	11.2%
Ealing	£1,815	0.6%	11.2%
Croydon	£1,413	0.8%	11.0%
Hammersmith and Fulham	£2,494	1.3%	10.7%
Westminster	£2,997	0.9%	10.5%
Harrow	£1,591	0.6%	10.5%
Havering	£1,375	1.3%	10.2%
London	£2,086	0.8%	10.1%
Haringey	£1,959	1.0%	9.8%
Wandsworth	£2,325	0.6%	9.8%
Lambeth	£2,160	0.4%	9.8%
Kensington And Chelsea	£3,397	1.2%	9.5%
Newham	£1,699	0.5%	9.3%
Lewisham	£1,644	0.7%	9.2%
Barking and Dagenham	£1,425	0.8%	8.2%
Redbridge	£1,510	1.0%	8.2%
Camden	£2,515	1.0%	8.0%
Merton	£1,929	0.2%	8.0%
Waltham Forest	£1,586	1.0%	8.0%
Bromley	£1,527	0.6%	7.8%
Barnet	£1,735	0.4%	7.7%
Richmond upon Thames	£1,966	0.6%	7.5%
Southwark	£2,212	0.4%	7.5%
Enfield	£1,533	0.9%	7.4%
Kingston upon Thames	£1,644	0.1%	6.5%
Bexley	£1,310	0.9%	5.6%



About Carter Jonas

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