Residential Briefing Note: February 2018

Market Overview and Brexit Watch

GDP growth during the fourth quarter has been reassuring, if first estimates are to be believed. At 0.5% during Q4 this points to an economy that looks quite a lot better than many had anticipated in the weeks and months that followed the EU Referendum. Many had anticipated that the uncertainty following the vote would leave the economy floundering but this has not materialised in quite the way predicted. Many of these same forecasters think that 2018 could be the year the economy feels the Brexit bite but others - this author included - think that in fact 2018 may end on an even stronger note.

Brexit negotiations continue this month with just two issues on the table to sort: the scope of the transition deal and the Northern Ireland border. There is currently no known (or publicised) solution to the prevention of a hard border in Northern Ireland and given that the subtle avoidance of this issue was how 'significant progress' was able to be made in negotiations in December, it is hard to see how this will not hold things up yet further. The transition period is also still requiring some hard bargaining including what rights EU nationals arriving in the UK during the transition period, will have and for how long.

Despite this, and as discussed in previous editions, negotiations are moving forward, and the transition period will undoubtedly be agreed eventually. We expect that inflation will begin to normalise to acceptable levels in the next few months, while wage growth should also pick up, and this is not to mention that the wider global economy is in a very strong position currently. All of these will hopefully(!) mean that levels of uncertainty diminish and consumers, businesses and investors grow ever more confident about the immediate future.

UK economic backdrop

- **First estimates of GDP during the last three months of 2017 point to an economy that is (was?) gathering pace. At 0.5% quarterly growth**, this was above consensus expectations and means growth for the year will likely end at a robust 1.8%. This figure is only slightly below 2016 (1.9%) and is encouragingly four times what many forecasters had predicted in the wake of Brexit.
- **January's retail sales indicate a disappointing start to the year with a monthly increase of just 0.1%** in volumes, well below market expectations of a 0.5% rise. Annual sales volumes in the three months to January are therefore just 1.5%, much lower than the 5-6% rates posted at the end of 2016. With inflation pressures having bitten during most of 2017, and wage rises sluggish through most of the latter part of the year, it is not surprising then that consumers are being more cautious with their spending. The good news is that **most forecasters expect better wage growth and lower inflationary pressures this year.**
- The GfK **Consumer Confidence index increased four points in January to -9,** up from -13 in December. It seems that consumers **are feeling more upbeat about their own financial situation as well as the outlook for the UK economy**. However in context, this is still more negative than at the same time last year when the Index recorded -5.
- The Markit / CIPS **Manufacturing Index fell to 55.3 in January,** down from 56.2 in December and below market expectations of 56.5. This indicates the **weakest pace of expansion since June** 2017 as output growth slows to a six month low while new orders rose at the lowest rate for

seven months. And with rising oil and commodity prices, input cost inflation appears to have surged this month to an 11-month high.

- Meanwhile the **Construction PMI (Markit / CIPS) also fell again in January, down to 50.2 from 52.2 in December** and again below market expectations which had forecast an upswing to 52.8 this month. This was the lowest reading in four months and is down to a **contraction in UK housebuilding, as engineering and commercial building increased over the month,** albeit marginally. Nevertheless, the survey also points to optimism as most firms felt things would improve during the year.
- As with the other indicators, **January data for UK Services PMI (Markit / CIPS) also disappointed, declining to 53.0 from 54.2 last month**. This is the weakest pace of expansion in the sector since September 2016. This also means that the first month of the year has not sustained the same encouraging pace of growth as during the final quarter of 2017. All is not lost however as once again **business and market optimism in the survey suggests the strongest reading since March last year** and the rate of job creation remains strong and positive.
- December's data for **industrial, construction and trade (latest available) shows a robust 1.6% rise in construction output**, much higher than the ONS had initially estimated – although quarterly figures for the industry still indicate a contraction of 0.7%. **Industrial production meanwhile fell by an unexpected 1.3%**. Encouragingly however, none of these latest monthly figures are expected to effect a change to the first estimate of Q4 GDP.
- **Inflation held steady in January, remaining at 3.0%,** much in line with forecasts as well as the MPC's own projection in its latest 'Inflationary Report'. The largest **downward contribution came from fuel prices** which rose in January but by less than they did last year. This was offset however by rising prices from recreation and culture with the ONS pointing to admission prices for attractions which fell by less than one year ago.
- The latest **MPC meeting in early Feb indicated a 'no change' in interest rates**, with many believing the next rate hike will come following the May meeting. However, saying that it will also largely depend upon the Q1 GDP figures which will be released in the weeks prior to the meeting; a sluggish first quarter might make the Committee consider leaving rates for yet another month or two until it is felt that the consumer can tolerate a rise.
- Latest data from the Labour Force Survey shows that the **employment rate edged down slightly during the three months to December, to 75.2%** from 75.3% the month before. **The unemployment rate** mirrored this change by increasing slightly from **4.3% last month to 4.4% currently.** Nevertheless, labour market data is strong as employment actually rose by 88,000 in the three months to December.
- **Average weekly earnings meanwhile has increased slightly to 2.5%** (nominal terms) up for the third month in a row and following a pattern which many forecasters had been expecting as recruitment difficulties continue and job growth rises. Despite this, **in real terms, wages continue to decrease (that is, adjusted for inflation), by 0.3%** and thus continuing to squeeze consumer's overall spending ability.
- The **Pound continues to rise against the Dollar, increasing over the month to $1.40** (at 20 Feb). Against the Euro however there has still been no change, showing €1.13 (at 20 Feb) where it has hovered now for the last six months. On a trade-weighted index basis however, the Pound is strengthening but only ever so slightly. Although latest data is only to December 2017, it shows an index rise 1% over the month. This demonstrates further that it is in fact the Dollar declining more rapidly than the Pound is increasing.

(A new table outlining the latest market indicators can be found at the end of document)

Residential property market

Sale Prices and Rents

- According to the latest **UK House Price Index from HM Land Registry, UK house prices rose 0.5% in the month of December, and 5.2% on an annual basis**, slightly faster than November's 5.0% rise. This means UK house price inflation was between 4-5% through much of 2017, much higher than was forecast at the start of the year.
- On a regional basis the **West Midlands at 7.6% followed by the South West (7.5%) and the East Midlands (6.3%)** posted the strongest annual growth this month across England and Wales. London has once again pulled into the last position with growth of just 2.5%.
- In the local areas where Carter Jonas has a presence **Cambridge has once again indicated the strongest annual house price growth at 15.7%.** While this growth is staggering it is partly due to house price falls which the city experienced during the latter half of 2016. Nevertheless, many **other locations have posted above-average growth with Northampton (9.3%), Bath (8.1%), and Wiltshire (8%)** all posting the strongest annual price rises.
- Turning to London: as was the case in October and November data, December figures indicate that the outer London boroughs (3.4% annually) have again grown more strongly than those in inner London (1.2% annually). This is now the **third month in a row when outer London growth has been stronger than inner London** following a short stint of just four months when inner London house prices grew very slightly more than those in outer London. Previous to that, outer London prices have grown more than inner London since November 2014, halting a streak of nearly 100 months of stronger Inner London growth (see chart).
- As has been widely reported across many media outlets recently **Prime Central London prices continue to fall, with average house prices here declining 6.6%** on an annual basis. This means that a property in PCL during December sold for an average of £1,114,336 (compare this with the average price three years ago, in December 2014, of £1,147,626). Across South West London average prices grew slightly above the wider London average by increasing 2.7% to £681,397 in December.
- **Nationwide data for January indicates the current UK house price average is £211,756, up 3.2% annually and 0.6% monthly.** This was a rather hefty increase over December's annual growth of 2.6% although the same monthly increase of 0.6% was noted. With the decline in mortgage numbers and slowing retail sales the 3.2% increase has come as somewhat of a surprise. Having said that, the 0.5% UK GDP growth during the fourth quarter was strong and employment figures remain solid as well.
- Meanwhile annual house price inflation according to the **Halifax suggests growth is cooling with annual house price growth of 2.2% in January**, down from 2.7% the month before. House prices on a monthly basis declined 0.6% taking the average house price to £223,300. Despite a small gap between Halifax and Nationwide data, **the overall picture is one of low growth of between 2-3%**, which many forecasters predict will be par for the course over the rest of the year.
- The January **RICS Residential Market Survey** reports a national price balance of +8% for the second month in a row, **suggesting that prices are at least on a slight upward trajectory**.

However, regional differences are acute, with London in deeply negative territory while the North West and Wales report strong price growth.

- According to the latest **ARLA PRS report for December the number of tenants who experienced a rent increase remains unchanged at 16%.** In line with this, the number of tenants who indicate they had successfully negotiated rent reductions decreased from 3% in November to 2.5% in December.
- HomeLet's most recent January Rental Index report shows that **rents across the UK rose by an average of 2.4% annually**, with an average monthly rent now of £909 (£760 pcm excluding London). Rents in London increased by 2.3% to £1,532 pcm **with the strongest growth recorded in the East Midlands (6.0%) and across the South West (3.4%)**. Interestingly, these are also two of the regions which have indicated the strongest house price growth recently.
- According to HomeLet data, the **London locations where CJ has a presence are showing annual rental growth**: Westminster (9.4%), Chelsea, Fulham, Hammersmith & Kensington (4.2%) and Wandsworth (2.0%).
- Finally, Valuation Office rent data for the private rented sector was released in December, concluding a survey of the sector which they (try to) conduct twice a year**. Average two-bed monthly rents for CJ locations are summarised in the table below suffice to say that unsurprisingly Kensington & Chelsea was the district with the highest average rents, followed by nearly every other London borough**. Epsom & Ewell, Elmbridge, Guildford, Windsor & Maidenhead and Cambridge recorded the next top most expensive rents outside of London.

(Click to see detailed house price and rent tables)

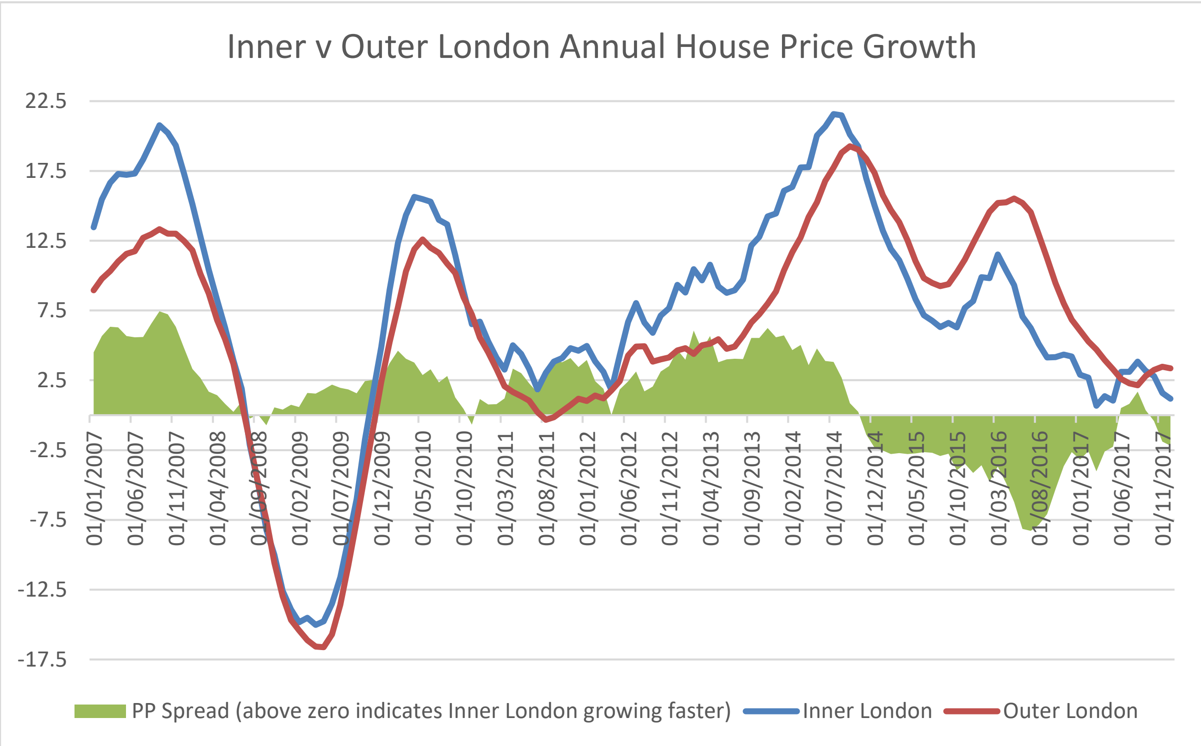
Activity

- UK Finance mortgage data for December (latest available, seasonally adjusted) indicates some poor figures. **Total number of loans was down 10% over the previous month and 14% fewer than the same month one year ago.** The majority of this decline has come from remortgages which were down 15% over November's figure, while new home purchases were down 7%. However, looking at the detail on an annualised basis, **total number of loans in 2017 is actually 1% above 2016 and at over 943,000 it is the highest number of loans issued since 2009**.
- Bank of England's figures for **monthly number of approvals for house purchases (seasonally adjusted) also shows a fall in December's figures to just over 61,000, down 6% over November** and 11% fewer than the same month one year prior. On an annual basis the 796,000 loans approved during 2017 is slightly less than 2016 (-2%) but on a long-term basis was **17% above the ten year annual average.**
- Further evidence of a **minor slowdown in activity during December has come from HMRC's UK Property Transaction count. On a seasonally adjusted basis December displayed a decline of 4%** to 99,100 transactions, almost exactly the same figure as December, one year ago. Annually this means **2017 transaction levels were almost exactly on par with the previous three years, with 1.2 million transactions completing every year** from 2014-2017.
- What is perhaps more interesting in terms of activity levels are the **regional differences and the changes to monthly sales volumes over the last 18 months**. The table at the end of this document summarises these changes pre- and post- June 2016 (EU Referendum). Although it is hard to disentangle the effect of the EU Referendum (June 2016) with the increased stamp duty (April 2016) on sales levels, together they have had some **tremendous effects in particular areas, such as**: London, Oxford, Cambridge, and Newbury. What is further interesting is the potential correlation between volume declines and those who voted Remain: **of the top 15**

areas in England with the highest proportion of votes to 'Remain', 13 are in London while the other two were Oxford and Cambridge.

- For the tenth month in a row, **RICS Residential survey indicates that new buyer enquiries have declined with a net balance of -11 of respondents reporting a fall in January. Newly agreed sales also fell** although most respondents seemed positive by indicating that sales will up over the next 12 months with a net balance of +33. Unsurprisingly then the average number of properties with each estate agent continued to fall to near-record low levels.
- Contradictorily though, Rightmove has just released their latest House Price Index report (February 2018) indicating that January was the **'busiest month ever' on the Rightmove website, with potential buyer visits reaching over 141 million**. Similarly, they indicate an increase in sellers too, with 2% more properties listed in January 2018 than the same month one year ago.
- Across the rental market, ARLA's December data (latest) suggests that the supply of rental stock increased over the month, **with the number of properties letting agents managed rising to 200 from 192 in November**. This is also 6% higher than the same month one year ago and the highest since records began. **Demand increased marginally over the month** with an average of 59 new prospective tenants registered during December, up from an average of 58 the month before.

Chart of the Month



Source: UK House Price Index

Five-year **Economic** Forecast Tables, Experian, January 2018

(latest data)

Metric	2017	2018	2019	2020	2021
CPI	2.70%	2.46%	1.98%	2.00%	2.00%
RPI	3.57%	3.33%	2.85%	3.00%	3.27%
Interest Rates	0.29%	0.61%	0.92%	1.21%	1.71%
House Price Growth	4.97%	2.04%	2.73%	3.51%	3.37%
GDP Growth	1.8%	1.5%	1.5%	1.5%	1.7%

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

Key Market Indicators, latest data versus previous data

Market Indicators	Current	Previous	Direction of change
GfK Consumer Confidence	-9	-13	↓
IHS Markit / CIPS Manufacturing PMI Index	55.3	56.5	↓
IHS Markit / CIPS Construction PMI Index	50.2	52.2	↓
IHS Markit / CIPS Services PMI Index	53.0	54.2	↓
Inflation rate	3.0%	3.0%	↔
Interest rate	0.5%	0.5%	↔
Employment rate	75.2%	75.3%	↓
Unemployment rate	4.4%	4.3%	↑
Weekly earnings growth	2.5%	2.4%	↑
£ Sterling : $ USD	$1.40	$1.39	↑
£ Sterling: € Euro	€1.13	€1.13	↔
Nationwide annual house price inflation	3.2%	2.6%	↑
Halifax annual house price inflation	2.2%	2.7%	↓
Official House Price annual inflation (Land Registry)	5.2%	5.0%	↑

Sources: ONS (unless otherwise indicated)

Changes in Average Monthly **Sales Volumes**, HM Land Registry

Region	Jan 2013-June 2016 v July 2016 to Oct 2017	% of local pop. voted 'Remain'
Prime Central London	-34%	69%
Oxford	-24%	70%
South West London	-23%	73%
Cambridge	-22%	74%
Newbury	-16%	52%
Winchester	-13%	59%
York	-9%	58%
Bath and North East Somerset	-9%	58%
Basingstoke and Deane	-7%	48%
Suffolk	-3%	46%
Northampton	-3%	42%
Wiltshire	-2%	48%
Harrogate	-1%	51%
Leeds	2%	50%
England Average	0.3%	47%

Source: HM Land Registry (latest data), Electoral Commission

Official House Price data, HM Land Registry, December 2017

London	Average Price	Monthly Change (%)	Annual Change (%)
Prime Central London	£1,114,336	-1.8%	-6.6%
South West London	£681,397	0.7%	2.7%
London	£484,173	0.8%	2.5%

Source: HM Land Registry (December 2017, latest data)

CJ Regional Locations	Average Price	Monthly Change (%)	Annual Change (%)
Cambridge	£462,033	2.7%	15.7%
Northampton	£209,219	0.2%	9.3%
Bath and North East Somerset	£341,575	3.8%	8.1%
Wiltshire	£275,866	0.5%	8.0%
West Berkshire	£362,374	1.6%	7.1%
Leeds	£178,735	1.7%	6.1%
Winchester	£421,091	2.0%	6.1%
Cambridgeshire	£291,679	-0.4%	6.0%
Harrogate	£283,674	-1.5%	4.2%
Basingstoke and Deane	£305,462	-1.7%	3.8%
Babergh (for Long Melford)	£275,512	-2.2%	2.7%
Oxfordshire	£353,771	-1.7%	1.8%
York	£242,125	-0.5%	1.4%
Oxford	£411,108	-2.7%	0.4%

Source: HM Land Registry (December 2017, latest data)

London boroughs	Average Price	Monthly Change (%)	Annual Change (%)
Merton	£533,871	0.2%	9.8%
Tower Hamlets	£503,771	2.2%	9.4%
Greenwich	£401,688	0.5%	7.3%
Bromley	£453,689	1.0%	5.7%
Redbridge	£425,061	-0.4%	5.7%
Barnet	£550,167	0.8%	5.4%
Richmond upon Thames	£668,369	1.1%	4.8%
Lewisham	£417,640	-2.0%	4.7%
Hammersmith and Fulham	£770,120	1.4%	4.5%
Havering	£366,354	-0.6%	4.5%
Bexley	£345,597	1.2%	4.4%
Sutton	£384,902	0.1%	4.1%
Barking and Dagenham	£296,892	0.8%	3.9%
Newham	£366,432	0.4%	3.7%
Hounslow	£403,716	0.9%	3.1%
Islington	£663,877	1.3%	2.5%
Waltham Forest	£443,157	0.3%	2.1%
Croydon	£369,576	-0.8%	1.7%
Harrow	£467,719	-1.3%	0.8%
Lambeth	£515,919	-0.6%	0.8%
Camden	£837,707	-0.2%	0.7%
Hackney	£550,432	-3.9%	0.3%
Haringey	£536,640	-2.1%	0.3%
Hillingdon	£412,605	-1.9%	0.3%
Ealing	£485,602	-0.2%	0.0%
Enfield	£394,603	-1.3%	0.0%
Kingston upon Thames	£487,151	-1.8%	-0.8%
Brent	£484,385	2.2%	-1.2%
City of Westminster	£1,016,380	3.0%	-1.3%
Wandsworth	£605,702	-0.5%	-1.5%
Southwark	£494,658	-1.8%	-3.0%
City of London	£768,751	0.3%	-5.3%
Kensington And Chelsea	£1,212,292	-5.5%	-10.7%
Inner London	£583,879	-0.6%	1.2%
Outer London	£432,497	0.0%	3.4%

Source: HM Land Registry (December 2017, latest data)
Note: Boroughs in red indicate main CJ sales presence.

Private Rental Market Statistics, Valuation Office, Q3 2017

(Carter Jonas locations, £ per calendar month)

	Latest data (Q3 2017)	**Previous data (Q3 2016)**	**Annual change**
Wiltshire	£725	£690	5.1%
Bath and North East Somerset	£1,019	£970	5.1%
Leeds	£671	£644	4.2%
Oxford	£1,178	£1,132	4.1%
Northampton	£679	£653	4.0%
Winchester	£967	£931	3.9%
Babergh (for Long Melford)	£655	£638	2.7%
Kensington and Chelsea	£3,368	£3,287	2.5%
West Berkshire (for Newbury)	£904	£885	2.1%
Cambridgeshire	£817	£800	2.1%
Harrogate	£728	£717	1.5%
Basingstoke and Deane	£870	£857	1.5%
Oxfordshire	£974	£960	1.5%
York	£721	£711	1.4%
Cambridge	£1,218	£1,206	1.0%
Westminster	£2,744	£2,838	-3.3%
Hammersmith and Fulham	£1,833	£1,909	-4.0%
Richmond upon Thames	£1,580	£1,654	-4.5%

Source: Valuation Office (Private Rents, 2-bed average, Q3 2017 (latest data))

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, please go to http://landregistry.data.gov.uk/app/ukhpi