Carter Jonas

Residential
Update and Outlook

February 2024

Market Overview

Despite having recently confirmed the UK economy entered a recession at the end of last year, there are recent signs of optimism, with falling inflation, declining mortgage rates, and rising consumer and business confidence, with some measures suggesting the recession is already over. Clearly there is a bit of a disconnect between this GDP measure and other economic indicators. The labour market remains robust, with unemployment falling to 3.8% in the last quarter of 2023, alongside strong earnings growth of 6.2%. Additionally, retail data suggests a rise in sales volumes of 3.4% in January. While the technical definition of a recession has been met, the economy this quarter appears to be in better shape, and upward revisions to historic GDP figures are still a possibility, in any case.

Adding to the recent positive economic signals, house prices grew by 2.5% in the year to January, according to Halifax, marking the second consecutive month of annual price increases. The latest RICS survey further supports this optimism, noting both rising buyer demand and an increase in available properties for sale, leading to an overall improvement in market sentiment. However, concerns remain regarding the lettings market. While the pace of rental growth slowed this month, demand is rising again, and the significant imbalance between supply and demand persists.

Key Points

- *December saw a -0.1% decline in GDP, contributing to a -0.3% fall in the fourth quarter of 2023 following -0.1% decline in Q3. This two-quarter contraction confirms that the UK entered a recession in the second half of 2023.*
- *There was no change in January's inflation rate (latest), remaining at 4.0% for the second month in a row. Rising gas and electricity prices placed the most upward pressure on inflation in the month while food, alcohol and household goods placed downward pressure on the figure.*
- *Although the overall GfK Consumer Confidence Index moved down two points in February to -21 the key score from the Personal Financial Situation remained stable at 0. All of the five sub-metric scores are well above the same period last year.*
- *For the fourth consecutive meeting, the Bank of England's Monetary Policy Committee held interest rates at 5.25%. The Committee noted that more evidence is needed that inflation will continue its downward trend before any base rate cuts can be made.*
- *Job vacancies declined again but at the slowest rate since May-July 2022 according to the latest labour statistics, falling by 26,000 in the three months to January.*
- *Wage growth also eased, increasing by 6.2% (annually) in the latest three months to December, down from 6.6% in the previous period marking the fourth consecutive month of slowing growth.*
- *All three Purchasing Managers Indices (PMI) rose slightly in January over their December figures, although both the construction and manufacturing PMIs remain in contraction. Encouragingly, all three surveys report rising business optimism, in some cases (construction) at their highest level in a year.*
- *Halifax reported the second month in a row of rising house prices (annually), with the UK average increasing by 2.5% in January. Nationwide also reports an improving sales market with prices declining by around -0.2% year on year, up from -1.8% in December.*
- *The RICS' Residential Market Survey noted improvements across all sales market indicators, showing rising buyer demand as new enquiries moved into positive territory. On the supply side this too showed encouraging improvements with the new listings metric moving to its highest level in almost two years.*
- *Rightmove's Q4 2023 rental tracker found that the pace of rental growth is showing signs of easing with the annual figure of 9.2% the lowest rate of growth since 2021.*
- *Nevertheless, tenant demand continues to rise according to the RICS market survey, increasing in January over December while landlord instructions also fell yet again. The lettings imbalance between supply and demand will continue to drive rental prices over the coming months.*

Economic backdrop

Monthly GDP	CPI inflation	Interest rate	Wage growth
-0.3%	4.0%	5.25%	6.2%

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

The Macroeconomy

- GDP is estimated to have fallen by -0.3% in the fourth quarter of 2023, down from -0.1% in Q3. This therefore means the country hit a technical recession at the end of last year owing to the two quarters of contracting output. On a monthly basis GDP fell by -0.1% in December, following growth of +0.2% in November but this was not enough to offset the -0.5% decline in October.
- Inflation remained at 4.0% in January, below the consensus forecast of 4.1% and unchanged from December. Although headline inflation is stable, consumer price rises are in fact slowing; increased gas and electricity prices are mostly behind the stable rate this month, driven by Ofgem's price cap rise. Ofgem though is expected to reduce the price cap from April which will in turn significantly lower inflation.
- Interest rates were held at 5.25% in the latest meeting of the Bank of England's Monetary Policy Committee (MPC). This is now the fourth meeting in a row where the committee has held rates, following 14 successive rises to subdue inflation. The MPC voted 6-3 in favour of holding with two preferring an increase and one preferring a cut.

Labour and employment

- In the three months to January the number of job vacancies declined by 26,000, the 19th consecutive quarter of falling vacancies and the longest ever recorded. This however is the slowest fall since May to July 2022. The number of payrolled employees meanwhile rose by 401,000 or 1.3% in the 12 months to December, although the pace of growth is decreasing.
- The latest Labour Force Survey (LFS) data shows the unemployment rate decreased in the three months to December, to 3.8% while the overall employment rate was 75.0%. The ONS notes that the LFS data should be treated with caution due to the smaller sample sizes; only 20% of the sample has so far been collected and therefore future revisions will be inevitable.
- The pace of growth in average weekly earnings continues to soften, moving from 6.6% in the previous quarter to 6.2% in the three months to December. 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

- The S&P Global UK Manufacturing PMI made little movement in January rising to 47.0 from 46.2 in December and 47.2 in November. Both output and new orders declined during the month adding to increased job losses. Further challenges came from the Red Sea crisis which added to delivery times amid redirection routes. Notably though manufacturers remain optimistic with business sentiment at a four-month high.
- The UK Services PMI meanwhile rose to its highest activity level in eight months, moving to 53.8 in January from 53.4 the month before. There was a sharp uptick in new work and output while survey participants noted rising confidence amongst clients. An increase in wage pressures however resulted in another rise in input costs although it was the slowest rate of increase in the last three months. Optimistically though, and as with the manufacturing sector, there is still rising overall sentiment within the sector with business optimism the most upbeat since May last year.
- Finally, the UK Construction sector PMI rose to 48.8 in January, up from 46.8 in December. This is the highest level (or slowest rate of contraction) in five months as new work continues to contract and delayed decision making amongst clients is ongoing. Nevertheless, supply constraints have eased again with delivery times shortening for the 11th consecutive month and input costs rising only modestly. As with the other sectors, participants in the survey were the most upbeat for future activity since January 2022.

Consumer demand and sentiment

- Retail sales volumes rose sharply in January, up 3.4% following a decline of -3.3% in December and well above consensus forecasts of 1.5%. Non-food store promotions in January boosted sales here by 3.0% with department stores and other stores sales (e.g. sports equipment) jumping 5.4% and 6.2% respectively while food store sales also rose, increasing by 3.4%. Only clothing sales declined on the month, down by -1.4% and likely the result of the mild winter. Other than that category, all sub-sectors rose on the month and all but offset December's surprise falls.
- Consumer sentiment dipped slightly in their optimism about the future in February, according to the GfK index. The overall score dropped two points to -21,

reflecting a slightly less positive outlook compared to January. While most categories in the index declined, the personal financial situation measure provides some optimism as it held steady at 0, indicating stability compared to a significantly lower score of -18 last year. This suggests continued confidence in individual finances, which can be an early predictor for future spending.

Residential market

Monthly mortgage approvals	Balance of new enquiries	UK annual house price growth	UK annual rental growth
50,459	7%	-0.2%	7.5%

Sources: Bank of England, RICS, Nationwide, HomeLet

Residential sales

Mortgages and transactions

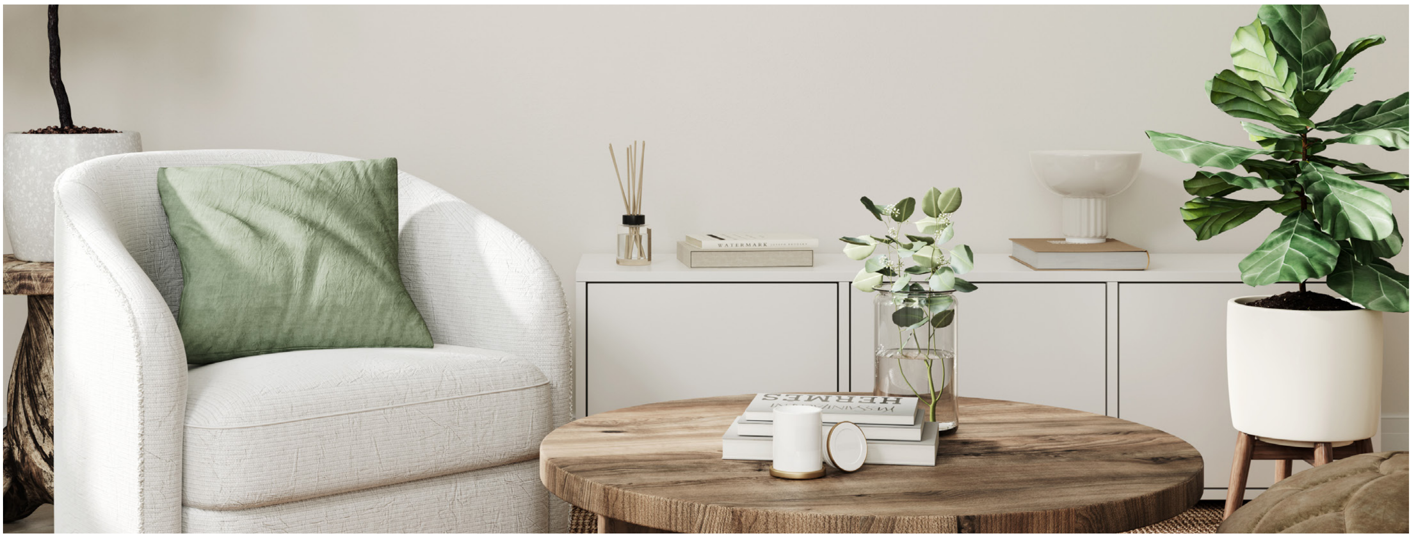
- For the third consecutive month mortgage approvals continued their monthly rise, albeit the ascent is very slow. December saw approvals rise by 2% over November although they are up 14% compared with September 2023. Total approvals reached 50,459 in December, up from a downwardly revised figure of 49,313 in November. Annually, they are down over 25% compared with the pre-COVID 2019 level.
- December's transaction volumes continued their gradual decline, falling 1% from November and 18% compared to December 2019. This marks the fifth straight month of decreasing transactions. However, for the whole of 2023, total sales only dipped 13% compared to 2019, pre-pandemic levels. This suggests that cash buyers remain active, unlike mortgage holders and points to higher mortgage rates as the primary factor dampening consumer demand.
- Average mortgage rates have started to climb again over the last few weeks. Following 29 weeks of consecutive declines the current rate is now circa 4.67% (5 year, 85% LTV). Nevertheless, this is still well below the peak of 6.18% in July 2023.

Supply and demand

- The January RICS Residential Market Survey continues to point to a rebound in the market with the balance of new buyer enquiries moving to +7%, up from -3% in December and the highest level since April 2022. There was also further improvement in the agreed sales indicator which moved into positive territory (+5%) for the first time in nearly two years with sales expectations over the coming three months rising to +14%.
- Staying with the RICS survey and on the supply side the new instructions measure moved to +11%, the highest figure since March 2021. This suggests that buyers may now have more choice in the market with the demand and supply balance reaching equilibrium, having been widely out of sync for most of the last two years.
- Increasing sales market momentum is also evident in Rightmove's latest index which shows that agreed sales have risen by 16% over the same period one year ago and are even 3% more than the 'pre-pandemic period' of 2019. Furthermore, there are 7% more listings on Rightmove this year over last and 7% more buyer enquiries as well.

UK prices and price growth

- House prices began the year on a more positive footing, according to Nationwide, with annual prices down by just -0.2%, compared with -1.8% at the end of 2023. On a monthly basis they were found to have grown by 0.7% to reach a national average price of £257,656. Overall, UK house prices are now down -5.8% from their peak in August 2022.
- House prices grew by a punchy 2.5% annually according to Halifax's latest index, up from 1.7% the month before and reflecting the highest rate of growth since January 2023. On a monthly basis prices also grew sharply, up 1.3%, the highest monthly rate of growth since the summer of 2022. The average UK house price is now £291,029, back to the same level as in October 2022.
- According to Rightmove's latest House Price Index, asking prices also rose in the 12 months to February, increasing by +0.1%, up from a fall of -0.7% in January and reflecting a monthly rise of +0.9%. This marks the first positive annual price rise for six months and brings the average asking price to £362,839.
- The Official House Price data indicates that the pace of falling house prices slowed in the 12 months to December with an overall rate of -1.4% across the UK in 2023, compared with (a downwardly revised) -2.3% in November. The overall average UK price is now £284,691, down just -2.4% from the peak of the market in September 2022.
- The RICS Residential Market Survey price balance measure returned a figure of -18% in January, up from -30% in December. Although it still suggests downward pressure on prices overall this is the fifth month in a row where this figure has slowly become less negative.
- Over the short term RICS respondents anticipate that house prices will remain largely flat while over the next 12 months a net balance of +18% of participants expects a mild rise in prices. This is a sharp rise from 0% the month before and is the highest figure since May 2022.



Regional prices and price growth

- Across our Carter Jonas tracked locations Winchester posted far and away the highest price gains over the last year, with prices here rising by 7.9%. The only other two locations which posted positive growth over the year were West Berkshire where prices rose by 1.3% and West Oxfordshire at 1.2%. Most areas have seen annual price declines with Oxford at the bottom of the table at -7.9%, followed by York (-4.9%) and Dorset (-4.5%).
- On a regional basis London is yet again at the bottom of the table, posting annual declines of -4.8% although this is up from -6% the month before. Unsurprisingly the three regions with the highest average property price saw the steepest declines with the South East posting a fall of -4.6% and East of England at -3.8%. Only the North West (+1.2%) and the West Midlands (+0.3%) posted overall price rises in 2023.

Residential lettings

Supply and Demand

- Seasonal trends are likely the root cause of a sharp dip in the number of new tenants registered per branch, according to ARLA Propertymark's latest report on the private rental sector. At 63 per branch, this is the lowest number since December 2022 and half what the figure was in August 2023.
- ARLA Propertymark's most recent report also found that the number of properties available to rent per branch declined in December albeit just moving from 10 in November to 9. They note this is the same figure as December 2022 and therefore is probably also a seasonal trend.
- Tenant demand rose again in January according to contributors to the RICS Residential Market Survey. The net balance moved from +17% in December to +28% currently. Landlord instructions became slightly less negative at 18% and while this figure has been a little volatile over the last two years it remains firmly in negative territory where it has been now in 38 of the last 40 months.

Rents and rental growth

- HomeLet reports that rental growth continues to ease, rising by 7.5% annually across the UK in January. This marks the lowest rate of growth since September 2021 and the third month in a row where average rents have fallen on a monthly basis.
- On a regional level though, rental growth is still punchy in some areas with growth of nearly 10% per annum in the South East, 9.7% in the East Midlands and 9.2% across the West Midlands. Rents however did fall on a monthly basis in nine of the twelve regions and countries analysed by HomeLet.
- In Rightmove's Q4 2023 Rental Trends Tracker they note that the pace of rental growth appears to be slowing with the quarterly rise in UK rents of +0.2% the smallest since 2019. They further report that the annual increase of 9.2% is the lowest annual growth since 2021. Looking ahead and the portal forecasts that in 2024 rents will rise by around 5% outside of London and 3% in London.
- In January's RICS market survey the gap between demand and supply in the lettings market continues to place upward pressure on rents. A net balance of +41% of RICS survey participants expect rents to rise over the next few months although this figure is down from +52% and +61% in the previous two reports.

HM Treasury Forecasts for the UK Economy, February 2024

Sources: HM Treasury Consensus Forecasts (February 2024)

	2024	2025	2026	2027	2028
Official Bank Rate (%)	4.42	3.45	3.29	3.18	3.04
House price inflation (annual, %)	-1.4	0.8	-2.2	2.1	5.0
CPI inflation rate (annual average, %)	2.2	2.1	2.0	2.1	2.1
Unemployment rate (%)	4.5	4.6	4.6	4.7	4.9
GDP (annual, %)	0.4	1.2	1.7	1.7	1.7
Average earnings growth (annual, %)	3.9	2.9	3.2	3.3	3.2

Select Market Indicators, latest versus previous data

Sources: ONS (unless otherwise indicated) (final six indicators retrieved 23 February)

	Current	Previous	Direction of change
GDP quarterly	-0.3%	-0.1%	↓
Inflation rate (CPI)	4.0%	4.0%	↔
Interest rate	5.25%	5.25%	↔
Employment rate	75.0%	75.0%	↔
Unemployment rate	3.8%	3.9%	↓
Weekly earnings growth, regular pay (excl bonuses)	6.2%	6.6%	↓
S&P Global UK Manufacturing PMI	47.0	46.2	↑
S&P Global UK Services PMI	53.8	53.4	↑
S&P Global UK Construction PMI	48.8	46.8	↑
Retail sales volume (monthly % change)	3.4%	-3.3%	↑
GfK Consumer Confidence Index	-21	-19	↓
Bank of England mortgage approvals (monthly)	50,459	49,313	↑
Nationwide house price inflation (annual)	-0.2%	-1.8%	↑
Halifax house price inflation (annual)	2.5%	1.7%	↑
Official UK House Price inflation (annual)	-1.4%	-2.3%	↑
Rightmove House Price Index (annual, asking)	0.1%	-0.7%	↑
HomeLet Rental Index (annual)	7.5%	8.0%	↓
£ Sterling: $ USD	$1.26	$1.27	↓
£ Sterling: € Euro	€1.17	€1.16	↑
Brent Crude Oil (USD)	$82.88	$79.00	↑
Gold (USD)	$2,018.35	$2,030.15	↓
FTSE 100	7,692.28	7,503.12	↑
UK 5 Year Gilt Yield	4.2250	3.8100	↑

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Official House Price data, HM Land Registry, December 2023

Sources: HM Land Registry

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
Winchester	£537,592	4.9%	7.9%
West Berkshire	£412,827	1.1%	1.3%
West Oxfordshire	£406,428	-1.2%	1.2%
Devon	£339,945	0.2%	-0.7%
North Yorkshire	£278,368	1.6%	-0.8%
Somerset	£305,945	0.7%	-0.8%
Leeds	£241,328	-0.3%	-0.9%
North Northamptonshire	£274,939	1.0%	-1.1%
Cambridgeshire	£352,507	-0.3%	-2.2%
West Northamptonshire	£293,704	-0.4%	-2.5%
South Cambridgeshire	£437,446	-1.6%	-2.6%
Bath and North East Somerset	£423,358	-4.8%	-2.6%
Suffolk	£299,013	0.9%	-2.7%
Vale of White Horse	£420,181	-1.0%	-2.9%
Cambridge	£515,041	1.1%	-3.0%
South Oxfordshire	£498,271	-2.5%	-3.5%
Cornwall	£309,778	-1.3%	-3.5%
Wiltshire	£324,693	-2.5%	-4.0%
Dorset	£350,438	-2.1%	-4.5%
York	£308,467	-2.5%	-4.9%
Oxford	£434,370	-9.6%	-7.4%

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
North West	£218,353	2.5%	1.2%
West Midlands region	£252,532	2.6%	0.3%
North East	£157,557	-1.2%	-0.8%
East Midlands	£248,390	1.6%	-1.0%
Yorkshire and The Humber	£207,501	0.1%	-1.2%
United Kingdom	**£284,691**	**0.1%**	**-1.4%**
England	**£302,164**	**0.2%**	**-2.1%**
South West	£318,966	-0.5%	-2.2%
Wales	£213,816	0.9%	-2.5%
East of England	£342,489	-0.5%	-3.8%
South East	£377,162	-1.9%	-4.6%
London	£508,037	0.0%	-4.8%

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£508,037	0.0%	-4.8%
Prime Central London	£1,001,543	-5.8%	-14.9%
South West London	£676,567	-2.2%	-3.8%

Official House Price data, HM Land Registry, December 2023

Sources: HM Land Registry

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Richmond upon Thames	£757,676	-0.3%	3.0%
Camden	£872,777	6.6%	1.7%
Newham	£424,253	-1.3%	1.0%
Hackney	£621,127	-1.1%	0.4%
Islington	£702,159	0.4%	0.1%
Hounslow	£448,840	-3.6%	-0.1%
Greenwich	£433,411	4.2%	-0.3%
Sutton	£436,261	1.9%	-0.4%
Lewisham	£467,052	1.7%	-0.4%
Kingston upon Thames	£546,063	1.1%	-1.2%
Bromley	£498,031	0.1%	-2.6%
Barnet	£577,548	-0.8%	-2.6%
Southwark	£535,918	-1.0%	-3.0%
Lambeth	£531,846	-4.6%	-3.3%
Merton	£555,262	-3.0%	-3.3%
Wandsworth	£607,259	-3.5%	-3.9%
Barking and Dagenham	£340,485	-0.7%	-4.0%
London	**£508,037**	**0.0%**	**-4.8%**
Brent	£526,198	-3.7%	-4.9%
Haringey	£573,740	-4.6%	-4.9%
Harrow	£500,070	-2.9%	-5.3%
Redbridge	£459,823	-3.8%	-5.3%
Ealing	£500,897	3.5%	-5.5%
Enfield	£431,877	-3.6%	-5.7%
Croydon	£402,505	0.4%	-6.1%
Hillingdon	£435,396	-2.0%	-6.5%
Tower Hamlets	£453,376	3.2%	-6.5%
Havering	£405,801	-1.8%	-6.9%
Bexley	£377,926	-2.3%	-7.3%
Waltham Forest	£468,598	-5.5%	-9.0%
Hammersmith and Fulham	£664,767	-3.1%	-10.6%
Kensington And Chelsea	£1,125,353	-6.9%	-13.7%
City of Westminster	£877,733	-4.3%	-16.1%
Outer London	£470,273	-1.1%	-4.1%
Inner London	£591,549	-1.7%	-5.0%

HomeLet Rental Index, January 2024

Source: HomeLet Rental Index

Region	Rent (£pcm)	Monthly Change (%)	Annual Change (%)
South East	£1,349	-0.3%	9.9%
East Midlands	£881	0.7%	9.7%
West Midlands	£945	0.5%	9.2%
Northern Ireland	£841	-2.3%	8.9%
UK (excluding London)	**£1,059**	**-0.2%**	**8.4%**
East Of England	£1,205	-0.8%	8.4%
Scotland	£906	-0.5%	8.0%
Yorkshire & Humberside	£852	-0.4%	7.8%
UK	**£1,260**	**-0.6%**	**7.5%**
North West	£1,002	-0.6%	6.5%
Wales	£856	-1.2%	6.5%
South West	£1,146	0.7%	5.6%
North East	£655	-0.3%	5.1%
Greater London	£2,081	-2.2%	4.6%

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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