

Residential Update and Outlook

July 2024

Market Overview

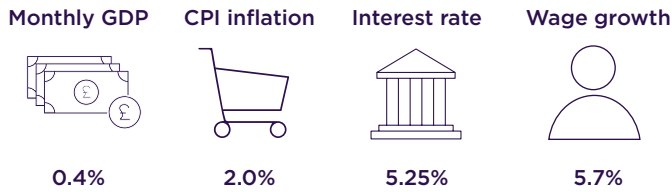
With the election now over all eyes are on the new Labour government to deliver on its manifesto promises. With this in mind, the recent King's Speech outlined a raft of new legislation with a focus on the housing market and boosting housing delivery. Among other measures, the new Planning and Infrastructure Bill takes aim at improving the planning system at a more local level and streamlining the delivery process of major infrastructure, both with the critical aim of helping to boost homebuilding. As expected, the Renters Rights Bill was also announced and at first glance, it appears similar to the previous government's Renters (Reform) Bill.

This month's recent residential sales data suggests a stable market, with little significant movement in either direction. Total transactions and mortgage approvals remain largely flat compared to the previous month. Annual sales price growth also shows minimal change, hovering around 1.5% (Nationwide) and 1.6% (Halifax), similar to May's figures. The potential, and widely expected interest rate reductions later this year (likely later this summer or early autumn) is likely dampening any substantial rise in demand for now.

Key Points

- Monthly GDP grew 0.4% in May, leading to three-monthly growth of 0.9%, the strongest figure since January 2022. Construction output soared, with monthly output growing 1.9%.
- Headline inflation remained at the Bank of England's 2% target for the second month in a row in June. Services inflation though remained elevated at 5.7%.
- Retail sales volumes declined by 1.2% in June following the 2.9% growth the month before. While the weather improved in May it didn't last long and the cooler weather in June probably added to the recent fall.
- Consumer confidence improved very slightly in July, increasing by one point to -13. The Major Purchase Index showed the most notable change, increasing by seven points to -16.
- There was a bit more stability in this month's labour market data as the unemployment rate remained unchanged at 4.4% and the employment rate increased slightly. Encouragingly, the provisional estimate of total payrolled employees showed growth of 16,000 although yet again there was a decline in total job vacancies.
- All three Purchasing Managers Indices (PMIs) declined slightly during the month although they all still remain in expansion territory with figures above '50'. In all three sectors business optimism remains positive.
- In the housing market, sales price growth remains positive but with little movement over the month. Nationwide recorded 1.5% annual growth while Halifax posted 1.6% year on year.
- Mortgage approvals moved down minimally during May (latest data) while total transactions increased slightly. The general election and a waiting game for interest rates to finally move downwards over the coming months has likely held back a more sustained level of activity.
- The official house price index from the ONS revealed 2.2% annual house price growth in May, up from (an upwardly revised) 1.3% rise in April.
- Most measures in the June RICS Residential Market Survey showed little change over last month's figures, pointing to a restrained sales market. New buyer enquiries remained negative at -7% while the new listings reading fell into negative territory (-9%) for the first time in six months.
- Rental growth remains high at 8.6%, although it is slowly easing, declining for the third month in a row from a peak of 9.2% in March this year (Price Index of Private Rents).

Economic backdrop



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

The Macroeconomy

- GDP grew by 0.4% in May (month on month) according to the ONS's latest figures. This is a marked improvement from the no growth recorded in April and contributed to growth of 0.9% in the three months to May. This is also the highest three-monthly growth figure in over two years and means GDP has risen 1.5% so far this year. A surge in retail sales in the month helped push services output up 0.3%, while manufacturing GDP grew 0.4% and construction output grew a robust 1.9% month on month, probably as the rain eased enough to allow projects to begin or continue in earnest.
- CPI inflation remained at 2.0% in June (annual), matching May's figure. The largest upward contribution has again come from services such as restaurants and hotels while the largest downward contribution came from falling prices of clothing and footwear. In all, services inflation remains high at 5.7%, again unchanged from last month and could play a part in the Monetary Policy Committee (MPC) interest rate decision in August.
- There is no MPC meeting in July with the next meeting scheduled for 1 August. With headline inflation remaining at the 2.0% target this could prompt members to lower Bank Rate at that August meeting. However, with services inflation remaining stubbornly elevated, this could lead to the MPC keeping interest rates on hold and wait until at least September to begin any easing.

Labour and employment

- Both the unemployment rate and the employment rate remained virtually unchanged from last month's figures. Unemployment remained the same at 4.4% in the three months to May while the employment rate moved very slightly to 74.4%, up from 74.3%. Once again, the labour market data should be treated with caution while the ONS grapples with low sample sizes.
- The number of payrolled employees rose in June (provisional estimates), increasing by a robust 16,000 during the month. On an annual basis the total number has risen by 0.8%, equivalent to 241,000 employees. The largest annual increase was seen in the health and

social work sector where 161,000 employees were added over the 12 months to June. The number of total vacancies fell again in the three months to June, down 30,000 from the previous three-monthly period. This is the 24th consecutive quarter of declining vacancies.

- The annual growth in employee average regular pay (excluding bonuses) was 5.7% in the three months to May, down from 6.0% in the previous quarter. Public sector pay growth was stronger at 6.4% while in the private sector the average increase was 5.6%, the lowest from this sector since June 2022.

Market indicators

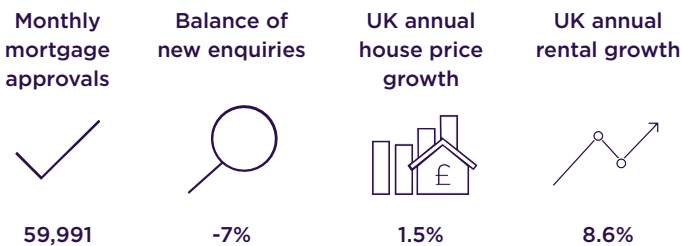
- Although the June Manufacturing PMI (S&P Global) fell to 50.9, from 51.2 in May, this still points to continuing growth. Both output and new orders expanded for the second month in a row. Although employment decreased slightly month on month, it is still above the low registered in February and with output rising, this should lead to hiring soon. Looking ahead, expectations for the market were positive with businesses reporting planned growth strategies and product launches.
- June marked the eighth consecutive month of expansion in the UK services sector with the latest PMI reading of 52.1. Although this is down from 52.9 the month before, it still marks relative positivity in the sector. New business contracts rose, although they were more subdued than they had been. Many firms noted a slowdown linked to the general election and its potential to deliver policy changes. The pace of new hires slowed this month and wage costs together with other operating expenses remains at historic highs. Having said that, the pace of input cost growth has slowed to its lowest level in three years.
- The UK construction PMI also remained in expansion in June, although at 52.2 this was well down from 54.7 in May. Slower growth was noted in civil engineering projects while housing construction fell back into contraction. There was a rise in new orders but this was slower than previously and again firms felt it was linked to election uncertainty.

Consumer demand and sentiment

- The volume of retail sales fell in June, down -1.2% on the month, following May's rise of 2.9%. All major categories saw declines during the month with non-food sales down -2.1% and food sales down -1.1%. The below-average temperatures in June likely amplified the overall downturn. However, despite month-to-month volatility, the year-to-date trend shows an increase in aggregate retail sales.

- GfK's Consumer Confidence Index improved one point in July, moving to -13. Just two of the five sub-measures increased during the month with two staying the same and one falling. The Major Purchase Index rose seven points to -16, quite an improvement over the same month last year when this measure was at -32. The Personal Financial Situation (forward looking) is the only measure which fell, down one point but this is also the only measure which is in positive territory, at +3.

Residential market



Sources: Bank of England, RICS, Nationwide, ONS

Residential sales

Mortgages and transactions

- Total mortgage approvals remain relatively stable, down by just -1% in May over April's revised figure. This is the fourth month in a row where the number of approvals has hovered around the 60,000 mark. May's number of approvals is still 20% more than the same month last year, and year to date mortgage approvals are 30% more than in 2023, both figures indicating a much improved market overall.
- Total sales figures rose 2.4% month on month to 91,290 in May, marking the fifth consecutive month of rising sales volumes according to HMRC's latest figures. This is the highest number of monthly transactions in 17 months.
- On the main mortgage rates have moved down very slowly and marginally over the last few weeks. The average 2-year fixed rate at 85% LTV is now 5.34%, down from 5.44% five weeks ago. This is a similar trajectory as most other rates however the average 95% two-year fixed rate has been rising to sit at 6.18% currently, up from 6.08% five weeks ago (Rightmove / Podium)

Supply and demand

- The latest RICS Residential Market Survey continues to show a sales market that remains subdued. New buyer enquiries posted a reading of -7%, largely unchanged from -8% the month before and the third month in a row of slowing enquiries. On the other hand, new instructions also slowed, this time to -9% and the first

negative reading of this measure in the last six months. We expect that buyers and sellers are continuing to wait for likely interest rate falls later this year. The general election probably also played a part with many opting for a 'wait and see' attitude. Consequently, the forward-looking measure for sales volumes over the next three months is much more positive with +20% expecting sales activity to recover, up from +10% last month.

- There has been a 15% rise in the number of agreed sales at this time of year compared with the same period in 2023, according to Rightmove's latest house price index report. The number of new sellers is also up, rising 3% over last year, however buyer demand is down -2% over the same period.

UK prices and price growth

- Annual house price growth accelerated slightly to 1.5% in June, according to Nationwide, up from 1.3% a month earlier. This reflects a small monthly growth of 0.2%, down from 0.4% in May. This means house prices are down by around 3% from the peak in August 2022 to an average of £266,064.
- Average house prices rose 1.6% in the 12 months to June, according to Halifax, marking no change from the 1.6% growth recorded in May. On the whole, house prices have remained fairly static recently with a -0.2% monthly fall reported in June which followed two months of no change. The typical UK home now costs £288,455 according to the bank, now just 2% below the peak in September 2022.
- Rightmove reports an annual asking price rise of 0.4% in their latest July report. This is down slightly from 0.6% in June and reflects a monthly fall of -0.4%. The report goes on to say that the election, the euro football tournament and the normal summer holiday period may have forced sellers to drop prices in order to grab the attention of 'distracted' buyers. The average new seller asking price is now £373,493.
- According to the Official House Price Index, house price growth reached 2.2% in the 12 months to May, up from 1.3% (revised) in April. On a monthly basis prices grew by an average of 1.2% leading to an overall house price in the UK of £285,201.
- According to the latest RICS survey, the net balance of -17% of participants who see house prices still moving downwards remains unchanged over last month's figure. This reflects how little sentiment in the sales market has changed over the month. More positively though, a net balance of +41% of participants believe that prices will move upwards over the longer term 12-month horizon, again unchanged from last month.



Regional prices and price growth

- Nationwide's quarterly regional data shows that both Northern Ireland and the North West recorded the strongest level of annual house price growth at 4.1%. This was followed by Yorkshire & The Humber at 3.8%, the North (2.9%) and London (1.6%). There were five regions where price falls are still being recorded with East Anglia recording the strongest fall at -1.8% followed by the South West at -1.5%.
- On a regional basis, according to the latest data from the ONS, house prices grew the most in Yorkshire and the Humber, where a 3.9% rise was recorded. This was followed closely by the North East (3.7%). At the bottom of the table was London where growth stalled at just 0.2%, although this is a marked change from the -3.6% recorded last month, reflecting a monthly rise in the capital of 3.9%.
- Across London, 21 of the 33 boroughs recorded house price declines over the last 12 months. Once again some of the locations with the highest average house price are where the strongest falls were recorded this month. At the top of the table was Merton where average price growth of 4.9% was posted, followed by Hounslow at 3.7% and Lewisham at 2.9%. In all, the Inner London boroughs posted an average price fall of -5.1% annually, compared with no growth (0.0%) across the 20 outer boroughs.
- Across our Carter Jonas tracked locations, Bath and North East Somerset has shown the strongest annual rate of house price growth at 10.0%, followed closely by the Vale of White Horse where a 9.8% rise was recorded. Five areas saw price declines with four being across the south west: Somerset (-0.1%), Wiltshire (-1.1%), Cornwall (-1.2%) and Dorset (-1.5%). These areas all experienced exceptionally high, double-digit price growth in the preceding three years so these declines should be considered a stabilisation of prices.

Residential lettings

Supply and Demand

- Tenant demand rose in May for the second month in a row, according to ARLA Propertymark's latest report. The average number of new prospective tenants per branch rose from 90 in April to 97 in May. This follows a very normal seasonal trend though and is still well below the same month in 2022 and 2023 when it was around 115 per branch.
- There appears a renewed decline in rental listings according to the June RICS market survey, with the net balance of new landlord instructions falling to -11%, down from -3% the month prior. Tenant demand remains elevated with a reading of +28%, although this is down slightly from +35% over May's reading.

Rents and rental growth

- Although rental growth continues to slow, at 8.6% in the 12 months to June, this is still strong compared with long-term historical averages (latest figures, Price Index of Private Rents, ONS). Regionally, London continues to see the highest rates of growth at 9.7% followed by the North West at 9.6% and the East Midlands at 9.4%. The slowest rates of growth were seen again in the North East at 5.9% but even there this level of growth is high compared to the longer term. Of our Carter Jonas office locations, York posted the highest growth at 12.3% in the 12 months to June, while Oxford saw the 'slowest' growth at 4.3%.
- Meanwhile, RICS residential survey respondents continue to anticipate rental growth with a net balance of +38% expecting this over the next three months. This figure has been largely unchanged over the last six months, having stayed within a range of +34% to +38% over this period.

HM Treasury Forecasts for the UK Economy, July 2024

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

	2024	2025	2026	2027	2028
Official Bank Rate (%)	4.71	3.74	3.67	3.32	3.23
House price inflation (annual, %)	0.7	2.6	2.6	3.8	3.7
CPI inflation rate (annual average, %)	2.5	2.2	2.1	2.4	2.3
Unemployment rate (%)	4.4	4.5	4.4	4.4	4.4
GDP (annual, %)	1.0	1.3	1.7	1.7	1.6
Average earnings growth (annual, %)	4.7	3.1	3.1	3.2	3.1

Select Market Indicators, latest versus previous data

Sources: ONS (unless otherwise indicated) (final six indicators retrieved 19 July)

	Current	Previous	Direction of change
GDP monthly	0.4%	0.0%	↑
Inflation rate (CPI)	2.0%	2.0%	↔
Interest rate	5.25%	5.25%	↔
Employment rate	74.4%	74.3%	↑
Unemployment rate	4.4%	4.4%	↔
Weekly earnings growth, regular pay (excl bonuses)	5.7%	6.0%	↓
S&P Global UK Manufacturing PMI	50.9	51.2	↓
S&P Global UK Services PMI	52.1	52.9	↓
S&P Global UK Construction PMI	52.2	54.7	↓
Retail sales volume (monthly % change)	-1.2%	2.9%	↓
GfK Consumer Confidence Index	-13	-14	↑
Bank of England mortgage approvals (monthly)	59,991	60,821	↓
Nationwide house price inflation (annual)	1.5%	1.3%	↑
Halifax house price inflation (annual)	1.6%	1.6%	↔
Official UK House Price inflation (annual)	2.2%	1.3%	↑
Rightmove House Price Index (UK, annual, asking)	0.4%	0.6%	↓
Price Index of Private Rents (UK, annual)	8.6%	8.7%	↓
£ Sterling: \$ USD	\$1.30	\$1.27	↑
£ Sterling: € Euro	€1.19	€1.18	↑
Brent Crude Oil (USD)	\$85.09	\$85.44	↓
Gold (USD)	\$2,413.09	\$2,364.55	↑
FTSE 100	8,169.21	8,253.42	↓
UK 5 Year Gilt Yield	3.9500	3.8975	↑

Official House Price data, HM Land Registry, May 2024

Sources: HM Land Registry

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
Bath and North East Somerset	£449,100	5.1%	10.0%
Vale of White Horse	£424,823	2.7%	9.8%
South Oxfordshire	£498,227	0.4%	6.4%
North Yorkshire	£273,921	1.1%	4.1%
Oxford	£454,736	0.4%	4.0%
South Cambridgeshire	£435,932	1.4%	3.6%
Winchester	£492,796	-0.3%	2.9%
Cambridgeshire	£342,261	0.5%	1.8%
West Oxfordshire	£379,854	-0.9%	1.6%
Devon	£326,363	1.4%	1.6%
Suffolk	£287,460	0.8%	1.1%
Leeds	£231,743	-0.7%	1.1%
West Berkshire	£405,968	3.0%	0.9%
Cambridge	£477,582	1.0%	0.7%
Somerset	£286,247	0.2%	-0.1%
Wiltshire	£320,145	-1.2%	-1.1%
Cornwall	£299,100	0.4%	-1.2%
Dorset	£346,887	-0.5%	-1.5%
York	£313,028	0.9%	-1.7%

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
Yorkshire and The Humber	£209,055	1.9%	3.9%
North East	£162,360	1.5%	3.7%
East Midlands	£245,574	1.0%	3.2%
West Midlands region	£250,787	2.3%	3.0%
North West	£217,525	0.9%	2.9%
Northern Ireland	£178,499	0.0%	2.6%
Scotland	£191,435	0.3%	2.5%
Wales	£216,002	2.5%	2.4%
South West	£318,223	0.6%	2.3%
United Kingdom	£285,201	1.2%	2.2%
England	£302,393	1.3%	2.2%
East of England	£337,757	0.6%	1.9%
South East	£375,693	0.3%	0.7%
London	£523,376	3.9%	0.2%

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£523,376	3.9%	0.2%
Prime Central London	£1,079,565	0.3%	-16.4%
South West London	£691,316	-0.5%	-7.4%

Official House Price data, HM Land Registry, May 2024

Sources: HM Land Registry

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Merton	£587,986	5.1%	4.9%
Hounslow	£455,274	1.7%	3.7%
Lewisham	£448,503	3.4%	2.9%
Greenwich	£431,240	0.4%	2.9%
Waltham Forest	£498,286	2.5%	2.9%
Bexley	£409,364	1.1%	2.6%
Redbridge	£469,871	1.3%	2.4%
Islington	£708,505	0.4%	2.1%
Wandsworth	£611,595	-1.0%	1.1%
Hackney	£607,713	0.4%	0.8%
Ealing	£521,324	0.6%	0.3%
London	£523,376	3.9%	0.2%
Sutton	£433,257	1.2%	-0.4%
Barnet	£583,534	1.8%	-0.7%
Hillingdon	£443,216	0.5%	-0.8%
Richmond upon Thames	£734,908	1.1%	-0.9%
Barking and Dagenham	£337,753	0.0%	-1.0%
Croydon	£392,840	-0.7%	-1.2%
Havering	£412,089	1.0%	-1.3%
Newham	£388,329	-3.2%	-1.3%
Enfield	£425,690	2.2%	-1.7%
Bromley	£490,629	2.3%	-1.7%
Lambeth	£532,327	2.0%	-2.0%
Harrow	£487,987	-2.1%	-2.0%
Kingston upon Thames	£538,073	1.5%	-2.0%
Brent	£503,590	1.7%	-2.5%
Southwark	£470,000	-0.4%	-2.7%
Tower Hamlets	£445,436	0.7%	-4.1%
Camden	£796,616	3.0%	-6.1%
Haringey	£529,942	0.9%	-7.3%
Kensington And Chelsea	£1,226,545	6.4%	-10.1%
Hammersmith and Fulham	£727,445	-1.6%	-22.6%
City of Westminster	£932,585	-6.7%	-22.7%
Outer London	£473,827	1.2%	0.0%
Inner London	£580,575	0.2%	-5.1%

Official Price Index of Private Rents, ONS, June 2024

Source: Office for National Statistics

CJ Regional Location	Average Rent (£ pcm)	Monthly Change	Annual Change
York	£1,107	0.4%	12.3%
Winchester	£1,357	1.4%	9.3%
Vale of White Horse	£1,227	0.2%	8.5%
South Oxfordshire	£1,270	1.3%	7.9%
West Berkshire	£1,200	0.5%	7.7%
South Cambridgeshire	£1,270	0.6%	7.2%
Cambridge	£1,650	0.2%	6.9%
West Oxfordshire	£1,245	0.6%	6.8%
Bath and North East Somerset	£1,564	1.0%	6.6%
Wiltshire	£941	1.1%	6.0%
North Yorkshire	£779	0.6%	5.6%
Oxford	£1,663	0.2%	4.3%

UK Country / Region	Average Rent (£ pcm)	Monthly Change (%)	Annual Change (%)
London	£2,098	0.6%	9.7%
North West	£845	1.2%	9.5%
East Midlands	£827	1.1%	9.4%
England	£1,310	0.7%	8.6%
West Midlands	£876	0.9%	8.4%
Scotland	£959	0.2%	8.4%
South East	£1,302	0.8%	8.3%
Wales	£743	1.0%	8.2%
Yorkshire and The Humber	£793	0.5%	7.6%
East of England	£1,150	0.6%	7.3%
South West	£1,125	0.6%	6.9%
North East	£669	0.3%	5.9%

London	Average Rent (£ pcm)	Monthly Change (%)	Annual Change (%)
London	£2,098	0.6%	9.7%
Prime Central London	£3,223	0.8%	9.2%
South West London	£2,278	0.7%	9.0%

Official Price Index of Private Rents, ONS, June 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	£2,079	1.5%	33.4%
Greenwich	£1,801	0.4%	15.5%
Islington	£2,510	0.9%	14.6%
Sutton	£1,439	1.6%	13.4%
Hounslow	£1,700	0.2%	12.3%
Hillingdon	£1,419	1.0%	11.8%
Hackney	£2,346	0.6%	11.5%
Hammersmith and Fulham	£2,530	1.4%	11.1%
Ealing	£1,825	0.6%	11.1%
Tower Hamlets	£2,244	0.7%	11.0%
Croydon	£1,422	0.6%	10.8%
Harrow	£1,601	0.6%	10.8%
Havering	£1,391	1.2%	10.7%
Haringey	£1,978	1.0%	9.9%
London	£2,098	0.6%	9.7%
Lewisham	£1,658	0.9%	9.4%
Westminster	£3,040	1.4%	9.2%
Kensington And Chelsea	£3,406	0.3%	9.2%
Lambeth	£2,167	0.3%	8.8%
Wandsworth	£2,330	0.2%	8.8%
Redbridge	£1,524	0.9%	8.5%
Waltham Forest	£1,601	0.9%	8.5%
Newham	£1,707	0.5%	8.4%
Barking and Dagenham	£1,434	0.6%	8.1%
Bromley	£1,537	0.7%	8.0%
Enfield	£1,552	1.2%	7.9%
Richmond upon Thames	£1,973	0.4%	7.1%
Southwark	£2,219	0.3%	6.9%
Merton	£1,925	-0.2%	6.8%
Barnet	£1,744	0.5%	6.7%
Kingston upon Thames	£1,648	0.2%	6.3%
Bexley	£1,322	0.9%	6.2%
Camden	£2,520	0.2%	5.4%



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 33 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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Residential Research

Leslie Schroeder
Head of Residential Research
020 7529 1538
leslie.schroeder@carterjonas.co.uk

020 7518 3200
One Chapel Place, London W1G 0BG