

Residential Update and Outlook

May 2024

Market Overview

The UK economy bounced back in the first quarter of 2024, officially ending the technical recession that began in the latter half of 2023. GDP not only returned to positive territory but grew at an impressive 0.6%, the strongest rate of expansion in over two years. This growth, along with Canada's, was the joint fastest among G7 economies. There was also positive news on inflation, which dropped to just 2.3% in the year to April, down from 3.2% in March. This is the lowest rate since July 2021.

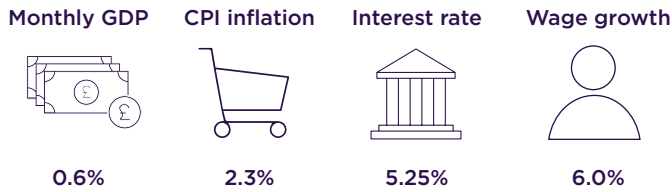
However, the latest labour market data is less encouraging. The unemployment rate rose slightly in the three months to March, while job vacancies and the total number of payrolled employees fell. It's important to remember that the labour market tends to lag the overall economy. So, while the economy may improve over the next few months, the labour market might continue to show signs of weakness.

Again, this month the latest housing market data suggests the sales market remains in a cautiously stable position. While house prices still show signs of growth, this was a modest 0.6% over the last year (Nationwide). Asking prices were found to have risen by the same amount, according to Rightmove. The level of supply does show signs of improvement, but buyers remain cautious, likely waiting for clearer signals about a potential interest rate reduction which is anticipated to arrive this summer.

Key Points

- GDP rose by a surprising 0.6% in the first three months of the year, meaning the country is officially out of recession.
- CPI inflation fell again in April, down to 2.3% from 3.2% in March and now the lowest rate since mid-2021. Ofgem's energy price cap reduction in April played a key role in the rapid rate decline.
- Retail sales volumes fell by an unexpectedly large -2.3% in April. The rainy conditions throughout much of the month and across most of the country appears to have kept consumers home as footfall fell.
- Consumer confidence increased by two points to -17 according to GfK's latest index. The index has now been slowly improving over the course of the last 12 months and is 13 points above the low of -30 in October 2023.
- There were again signs of an easing labour market this month as unemployment rose to 4.3%, up from 4.2% in the previous reading. Job vacancies declined again for the 22nd month in a row while the total number of payrolled employees also fell, for the third consecutive month.
- Annual wage growth remained elevated this month with earnings rising by an average of 6.0% over the last 12 months, the same as last month's figure. This pace of growth is expected to decline throughout the year though.
- Both the construction sector and services sector Purchasing Managers Indices (PMIs) rose in April, and both stayed comfortably in expansion territory at 53.0 and 54.9, respectively. On the other hand, the Manufacturing PMI fell to 49.1 in April, with uncertain market conditions impacting output.
- House price growth remained in positive territory according to both Halifax and Nationwide at 1.1% and 0.6% annual growth, respectively.
- The less timely official house price index data from the ONS (March, latest) shows house price growth turned positive in March, for the first time in 12 months. At 1.8% this is well above last month's rate of -0.2%.
- Buyer demand remained largely flat, according to the latest RICS Residential Market Survey with the new buyer enquiries measure reading -1%. New listings however rose to its highest level since late 2020 and average stock available per branch is also at a three-year high.
- Rightmove's latest quarterly rental report (Q1 2024) has found that the gap between available supply and tenant demand (while still wide) may be finally narrowing. They go on to say that the pace of rental growth is also slowing, moving to 8.5% annually, from 9.2% in the previous quarter (UK).
- Rental growth is still highly elevated, according to the latest data from the Price Index of Private Rents from the ONS. At 8.9% annually this is the third-highest rate on record after February and March this year.

Economic backdrop



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

The Macroeconomy

- GDP grew more strongly than expected during the first three months of the year, increasing by 0.6% according to latest ONS estimates. This is up from -0.3% in Q4 2023 and -0.1% in Q3 and means the UK is now officially out of recession. Disaggregated by sector and both services (0.7%) and production (0.8%) grew during the quarter while construction fell by -0.9%. All told, 0.6% is the highest quarterly growth the UK has experienced since Q4 2021.
- The rate of inflation continued to decline in the 12 months to April, moving to 2.3%, down from 3.2% the month before. This now marks the lowest rate of inflation since July 2021 and is over six basis points below the rate at the same time last year (8.7%). The largest downward contributor this month was falling gas and electricity prices, due mainly to the Ofgem energy price cap decrease during that month. The largest upward contribution came from rising petrol prices.
- The Monetary Policy Committee (MPC) voted to keep the bank rate at 5.25% at its latest meeting in early May. This was widely expected, and the markets had already been anticipating this. With a vote of 7 to hold and 2 to cut, the MPC moved further towards a cut, compared with last month's vote of 8 to 1. Looking ahead, a rate cut is possible at the next meeting in June. However, the ongoing tightness in the labour market, with persistently high wage inflation, may lead MPC members to delay a rate cut until August (when they will also have the benefit of an updated quarterly Monetary Policy Report).

Labour and employment

- The unemployment rate rose marginally again, moving to 4.3% in the three months to March, up from 4.2% in the previous three months. The total employment rate however remained unchanged at 74.5%. The ONS repeats that recent data from the Labour Force Survey should be treated with caution due to low sample sizes achieved over recent months.

- Yet again the number of job vacancies declined in the latest period, down 26,000 in the quarter to a total of 898,000. The number of payrolled employees also fell again, down 5,000 between February and March, although this is up 1.0% over the same period last year.
- Annual growth in average earnings (excluding bonuses) increased 6.0% in the latest period (Jan to March), unchanged from the previous three-month period. Wage growth increased at both public and private sector level with manufacturing (6.8%) and finance and business services (also 6.8%) recording the highest rate of growth. This is now the tenth month in a row where wages have risen faster than inflation.

Market indicators

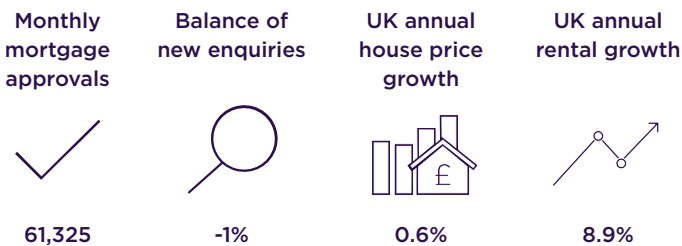
- The April Manufacturing PMI (S&P Global) decreased to 49.1 in April from a 19-month high of 50.3 in March. Uncertain market conditions appear to have impacted both output and new orders, both of which contracted in April. Longer delivery times and supply-chain disruptions were noted as well (due to the Red Sea disruption), while purchase input costs rose for the fourth consecutive month and the total number of jobs reduced for the 19th month in a row.
- The UK Services PMI rose to 54.9 in April, well above market expectations and above 53.4 last month. This marks the sixth month in a row of 'above 50' expansion territory and is the highest reading since May 2023. Both consumer and business spending in the sector rose in April but cost pressure, particularly from rising wages in the hospitality and leisure sector increased.
- Lastly, the UK Construction PMI rose to 53.0 in April, up from 50.2 the month before and marks the second consecutive month of positive growth following six straight months of contraction (below '50'). The sector was driven solely by growth in the commercial and civil engineering sub-sectors with new work rising for the third month in a row. Rising workloads and increasing customer demand were noted in the commercial sub-sector while civil engineering work rose at its highest rate for nine months. Housebuilding on the other hand showed a fall in residential work due to sluggish demand amid high borrowing costs.

Consumer demand and sentiment

- Retail sales volumes fell -2.3% during April, down from a revised -0.2% the month before. This was much worse than was expected (-0.4%) with declines across all sectors and types. Clothing retailers, sports equipment, games, toys and furniture fell the most with the long period of poor weather during the month likely depressing footfall. Auto fuel sales also fell the most since October 2021 and food store sales declined for the third month in a row.

- For the second month in a row consumer confidence improved by two points, according to the GfK Consumer Confidence Index. April's figure of -19 improved to -17 in the latest May report. Four of the five sub-measures rose in May with the Personal Financial Situation increasing the most moving five points to +7. There was downward movement though in the Major Purchase Index although this only moved by 1 point to -26 but this is still worse than the same month last year where it was -24.

Residential market



Sources: Bank of England, RICS, Nationwide, ONS

Residential sales

Mortgages and transactions

- There was another increase in the number of mortgage approvals issued in March, according to Bank of England's latest data. There were approximately 61,325 approvals during the month, up 1% over February's figure and 20% more than the same month last year. This was also the highest number of recorded approvals since September 2022.
- There was a similar rise in the total number of estimated transactions in March, according to HMRC. Sales reached just over 84,000 (seasonally adjusted), which is 1% more than February. Unlike mortgage approvals though this is down 6% over March 2023, again indicating that mortgage holders - much more exposed to interest rate changes - retreated from the market in much higher numbers than cash buyers.
- The slow climb of mortgage rates continues with the current average now 5.46%, up from 5.21% last month (85% LTV, 2 year fixed).

Supply and demand

- There has been a stumble in the level of buyer demand this month, according to the latest RICS Residential Market Survey. With a net balance figure of -1% in the new buyer enquiries metric this brings an end to three consecutive months of rising demand. Of new supply, participants returned a strong +23% rise in new instructions, the highest for this figure in over three years. This has led to overall stock levels also now

at a three-year high with an average of 43 available properties per branch.

- Rightmove's May House Price Index notes that the number of agreed sales during the first four months of 2024 is up 17% compared with the same period last year. They go on to say that the number of sellers has risen by 12% compared with last year although again both these trends are being driven by larger detached homes, of four or more bedrooms.

UK prices and price growth

- House prices fell by -0.4% in April (seasonally adjusted, Nationwide), leading to annual house price growth of 0.6%. This is down from 1.6% last month (annual) with the slowdown in growth likely due to rising mortgage rates. Rates fell rapidly at the turn of the year which coincided with house prices also rising. However, rates have been steadily climbing over the past ten weeks, putting pressure on buyer affordability, and making them more cautious.
- Halifax recorded a negligible rise of 0.1% in house prices in April (month on month) with annual prices increasing 1.1%, up from 0.4% in March. The bank goes on to say that the uplift over the 12 months to April is largely due to weak price growth in April 2023 rather than any significant rise in demand placing upward pressure on prices. The average UK property now costs £288,949.
- Annual asking prices rose by 0.6% according to Rightmove's latest house price index report (May). On a monthly basis the web portal found that prices have risen by 0.8% compared with April. They go on to report that again it is the 'top-of-the-ladder' homes which are still seeing the highest price growth, with average prices in these types of property up 1.3% compared with last year.
- The Official House Price Index from the ONS also showed positive house price rises as they returned to growth for the first time since March 2023. The latest data (March 2024) recorded UK annual growth of 1.8%, and a monthly price rise of 0.7%. Of the national data Scotland house prices posted growth of 6.7% followed by Northern Ireland at 4%, Wales (1.3%) and England (1.0%).
- The latest RICS survey finds a largely unchanged participant view of pricing with a net balance of -5% on the house price indicator, marking a largely stable trend and unchanged from last month. Furthermore, over the 12-month outlook period a net balance of +38% of respondents think prices will grow over the year, again virtually unchanged from the figures returned over the last two months.



Regional prices and price growth

- ONS house price data for March indicates that of the regions there were just two areas that saw house price declines over the last 12 months, with the South East at -1.3% and London at -3.4%. All other regions posted positive growth with Yorkshire and the Humber top of the table with 5% growth followed by the North West (3.8%) and the North East (3.2%). In London, the outer boroughs posted collective declines averaging -2.1% while the inner London boroughs showed a faster fall at -7.3% annually. Of the 33 boroughs just six posted price gains with Greenwich at the top with growth of 2.4%.
- Looking at the Carter Jonas tracked office location data and West Oxfordshire showed the strongest level of house price growth this month at 6% annually followed by North Yorkshire (4.4%), Winchester (4.3%) and Bath and NE Somerset (4.3%). We track 19 locations and this month seven showed price falls with West Berkshire at the bottom at -6.1% and South Oxfordshire next at -3.4%. These small geographic areas though can be highly volatile and longer-term trends must be considered when looking at these locations.

Residential lettings

Supply and Demand

- The rate of new tenant registrations per branch declined for the second consecutive month, according to ARLA PropertyMark's March housing report. The amount of available supply on the other hand ticked up slightly and compared with last year the number of new applicants per available property has moved from 11 in March 2023 to 9 currently.
- The latest RICS market survey also showed a contraction in tenant demand with a net balance of +12%, down from +19% last month. This however is the 'least positive' rating of this metric since April 2020. Landlord instructions however remain constricted at -13% although this is up from -19% the month before.

- All indicators from Rightmove's latest rental tracker for Q1 point to a slowly narrowing gap between supply and demand in the rental market, from recent highs. The web giant reports that available supply is up 11% compared with last year although this is still over a quarter less than the pre-pandemic figure. Demand on the other hand has come down, 17% lower than the same time last year although again this is significantly higher (54%) than in 2019. The average number of enquiries per available property according to the web portal is 13, down from 19 this time last year.

Rents and rental growth

- The pace of rental growth declined slightly in the 12 months to April, according to the latest Price Index of Private Rents figures from the ONS. At 8.9% this is down from the month before but is still the third highest recorded rate since records began in 2015, after February (9.0%) and March (9.2%) this year. On a regional and country basis rents were found to have grown the fastest in London at 10.8% followed by Scotland at 10.1% and England at 8.9%. London rents are the highest in the nation, averaging £2,070 per calendar month (pcm) followed by the South East at £1,285pcm and then the East of England averaging £1,137pcm.
- The quarterly Rental Price Tracker from Rightmove found that the pace of rental growth has declined slightly, although at 8.5%, annual growth is still high compared with the long run average. The growth rate in London also declined to 5.3% although rents in London are significantly higher than the rest of the country averaging £2,633 pcm compared with £1,291 across the UK.
- Rental growth expectations from the RICS Residential Market Survey marked a three-year low at +33%. This suggests that some participants think rental growth, while still rising, may begin to decelerate.

HM Treasury Forecasts for the UK Economy, May 2024

Sources: HM Treasury Consensus Forecasts May 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 24 May)

	Current	Previous	Direction of change
GDP quarterly	0.6%	-0.3%	↑
Inflation rate (CPI)	2.3%	3.2%	↓
Interest rate	5.25%	5.25%	↔
Employment rate	74.5%	74.5%	↔
Unemployment rate	4.3%	4.2%	↑
Weekly earnings growth, regular pay (excl bonuses)	6.0%	6.0%	↔
S&P Global UK Manufacturing PMI	49.1	50.3	↓
S&P Global UK Services PMI	54.9	53.4	↑
S&P Global UK Construction PMI	53.0	50.2	↑
Retail sales volume (monthly % change)	-2.3%	-0.2%	↓
GfK Consumer Confidence Index	-17	-19	↑
Bank of England mortgage approvals (monthly)	61,325	60,497	↑
Nationwide house price inflation (annual)	0.6%	1.6%	↓
Halifax house price inflation (annual)	1.1%	0.4%	↑
Official UK House Price inflation (annual)	1.8%	-0.2	↑
Rightmove House Price Index (UK, annual, asking)	0.6%	1.7%	↓
Price Index of Private Rents (UK, annual)	8.9%	9.2%	↓
Rightmove Rental Tracker (UK, excl London, annual)	8.5%	9.2%	↓
£ Sterling: \$ USD	\$1.27	\$1.23	↑
£ Sterling: € Euro	€1.17	€1.16	↑
Brent Crude Oil (USD)	\$81.28	\$86.63	↓
Gold (USD)	\$2,338.63	\$2,302.30	↑
FTSE 100	8,303.26	8,054.15	↑
UK 5 Year Gilt Yield	4.1955	4.179	↑

Official House Price data, HM Land Registry, March 2024

Sources: HM Land Registry

CJ Regional Location	Average Price	Monthly Change (%)	Annual Change (%)
West Oxfordshire	£392,332	5.7%	6.0%
North Yorkshire	£277,992	2.0%	4.4%
Winchester	£489,680	-0.8%	4.3%
Bath and North East Somerset	£428,154	2.9%	4.3%
Leeds	£238,551	0.5%	4.0%
Cambridge	£493,952	0.6%	3.5%
Vale of White Horse	£406,218	3.9%	2.2%
Dorset	£360,812	1.7%	1.3%
Oxford	£462,088	1.3%	1.2%
Suffolk	£292,028	0.7%	0.7%
Devon	£324,685	0.9%	0.6%
Wiltshire	£328,566	0.2%	0.3%
Cambridgeshire	£341,501	0.9%	-0.5%
Somerset	£290,816	0.0%	-0.5%
South Cambridgeshire	£428,744	2.5%	-0.9%
York	£314,438	0.0%	-1.6%
Cornwall	£301,404	1.0%	-1.7%
South Oxfordshire	£474,251	0.2%	-3.4%
West Berkshire	£385,470	-1.8%	-6.1%
South Oxfordshire	£459,576	-1.0%	-4.5%
York	£299,369	-0.4%	-5.5%

UK Region	Average Price	Monthly Change (%)	Annual Change (%)
Scotland	£191,678	2.3%	6.7%
Yorkshire and The Humber	£209,868	2.2%	5.0%
Northern Ireland	£178,499	0.0%	4.0%
North West	£216,501	1.1%	3.8%
North East	£158,569	-0.4%	3.2%
West Midlands region	£246,298	1.4%	2.4%
United Kingdom	£282,776	0.7%	1.8%
Wales	£213,753	0.9%	1.3%
England	£299,321	0.5%	1.0%
East Midlands	£242,223	0.3%	1.0%
East of England	£341,979	0.5%	0.8%
South West	£316,262	0.2%	0.5%
South East	£373,223	0.3%	-1.3%
London	£499,663	-0.9%	-3.4%

London	Average Price	Monthly Change (%)	Annual Change (%)
London	£499,663	-0.9%	-3.4%
Prime Central London	£1,052,065	-2.7%	-17.2%
South West London	£690,038	-0.7%	-7.8%

Official House Price data, HM Land Registry, March 2024

Sources: HM Land Registry

London Borough	Average Price	Monthly Change (%)	Annual Change (%)
Greenwich	£461,784	1.0%	2.4%
Islington	£678,134	3.9%	1.5%
Southwark	£491,508	-0.4%	1.4%
Brent	£512,292	-3.5%	0.6%
Harrow	£514,029	-2.2%	0.3%
Waltham Forest	£491,658	-0.6%	0.2%
Lewisham	£436,435	0.0%	-0.1%
Havering	£424,450	0.9%	-0.2%
Richmond upon Thames	£745,931	1.6%	-0.4%
Hillingdon	£456,719	1.0%	-0.5%
Bromley	£494,801	-1.0%	-1.1%
Bexley	£403,037	1.9%	-1.4%
Barnet	£591,449	2.8%	-1.7%
Wandsworth	£604,035	-1.3%	-2.1%
Hackney	£583,428	0.1%	-2.6%
Sutton	£428,622	1.8%	-2.8%
Merton	£554,526	1.2%	-3.0%
Redbridge	£458,939	-0.7%	-3.1%
Hounslow	£440,103	-2.6%	-3.2%
Newham	£384,741	-0.6%	-3.2%
Ealing	£518,461	-2.3%	-3.3%
London	£499,663	-0.9%	-3.4%
Croydon	£394,239	-0.3%	-3.8%
Enfield	£415,784	-2.4%	-4.6%
Haringey	£540,528	-5.1%	-5.4%
Kingston upon Thames	£523,713	-3.3%	-5.9%
Tower Hamlets	£443,193	-2.4%	-6.7%
Barking and Dagenham	£315,275	-0.7%	-7.5%
Lambeth	£495,972	-1.7%	-8.4%
Kensington And Chelsea	£1,193,478	-1.3%	-13.6%
Camden	£679,701	-12.5%	-20.8%
City of Westminster	£910,652	-4.5%	-20.9%
Hammersmith and Fulham	£720,149	-2.5%	-21.0%
Outer London	£473,780	-0.3%	-2.1%
Inner London	£566,329	-2.1%	-7.3%

Official Price Index of Private Rents, ONS, April 2024

Source: Office for National Statistics

CJ Regional Location	Average Rent (£ pcm)	Monthly Change	Annual Change
York	£1,096	0.6%	13.0%
Vale of White Horse	£1,222	0.2%	9.2%
West Berkshire	£1,190	0.1%	7.8%
South Oxfordshire	£1,250	0.9%	7.7%
Cambridge	£1,642	0.5%	7.6%
South Cambridgeshire	£1,254	0.7%	6.8%
Winchester	£1,319	0.8%	6.5%
West Oxfordshire	£1,225	1.0%	6.3%
North Yorkshire	£771	0.7%	5.5%
Bath and North East Somerset	£1,544	0.5%	4.9%
Oxford	£1,659	0.1%	4.9%
Wiltshire	£928	0.3%	4.3%

UK Country / Region	Average Rent (£ pcm)	Monthly Change (%)	Annual Change (%)
London	£2,070	0.7%	10.8%
Scotland	£952	0.5%	10.1%
England	£1,293	0.6%	8.9%
North West	£829	0.9%	8.8%
West Midlands	£862	0.2%	8.6%
East Midlands	£811	0.6%	8.4%
South East	£1,285	0.5%	8.2%
Wales	£730	0.4%	8.1%
Yorkshire and The Humber	£784	0.6%	7.4%
South West	£1,112	0.5%	7.1%
East of England	£1,137	0.5%	7.1%
North East	£666	0.6%	5.9%

London	Average Rent (£ pcm)	Monthly Change (%)	Annual Change (%)
London	£2,070	0.7%	10.8%
Prime Central London	£3,164	1.2%	10.7%
South West London	£2,243	0.9%	9.2%

Official Price Index of Private Rents, ONS, April 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	£2,028	4.5%	32.5%
Greenwich	£1,782	0.7%	16.1%
Islington	£2,464	1.4%	15.3%
Tower Hamlets	£2,209	1.1%	12.8%
Hounslow	£1,687	0.6%	12.5%
Westminster	£2,971	0.7%	11.9%
Sutton	£1,398	1.5%	11.4%
Hackney	£2,290	1.7%	11.2%
Ealing	£1,805	0.8%	11.0%
Hillingdon	£1,395	0.8%	10.9%
London	£2,070	0.7%	10.8%
Croydon	£1,402	1.2%	10.7%
Harrow	£1,581	0.7%	10.4%
Hammersmith and Fulham	£2,462	0.2%	10.4%
Wandsworth	£2,311	1.0%	10.0%
Lambeth	£2,152	0.7%	9.7%
Haringey	£1,939	1.4%	9.6%
Kensington And Chelsea	£3,356	1.5%	9.5%
Havering	£1,358	1.5%	9.4%
Camden	£2,489	0.4%	9.2%
Lewisham	£1,632	0.7%	9.1%
Newham	£1,690	0.6%	9.0%
Merton	£1,925	2.0%	8.9%
Barnet	£1,728	0.5%	8.5%
Southwark	£2,204	0.5%	8.4%
Redbridge	£1,495	0.8%	7.9%
Bromley	£1,518	0.5%	7.8%
Barking and Dagenham	£1,414	0.7%	7.8%
Waltham Forest	£1,571	0.8%	7.4%
Enfield	£1,519	0.7%	7.1%
Kingston upon Thames	£1,643	-0.1%	7.1%
Richmond upon Thames	£1,955	1.7%	7.1%
Bexley	£1,298	0.6%	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 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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