CBRE

UNITED KINGDOM

Residential Market Overview

UK Residential Research

Q3 2021

Contents

Economic outlook

- Headwinds such as supply bottlenecks and labour shortages continue to weigh on activity. Monthly real GDP grew by 0.4 per cent in August, and 2.9 per cent in the three months to August. GDP was boosted by a recovery in consumer-facing services, which had fared badly in July due to rising coronavirus cases and the resulting "pingdemic".
- There was also growth in the manufacturing sectors enabled by an easing of pressures caused by the global microchip shortage. However, construction output fell for the second consecutive month largely due to delays in the availability of steel, concrete, timber and glass. Adjusting for the NHS Test and Trace and vaccine programmes – which dragged down GDP by 0.3ppt – saw monthly real GDP grow by 0.7 per cent. Overall, the UK economy is 0.8 per cent below its pre-pandemic (February 2020) level.
- Looking ahead, we remain optimistic that the recovery will continue despite the headwinds. We are forecasting slower growth of 0.5 per cent in Q4 as high energy costs and supply shortages bite, but UK GDP is still expected to grow by 6.9 per cent in 2021, and 5 per cent in 2022.
- The labour market continues to recover. Employment has been growing since the spring, but it is still 2 per cent below February 2020 levels according to the latest Labour Force Survey (June-August 2020). Total hours worked have risen 7 per cent since February but remain 1 per cent lower than they were in February 2020.
- At the same time, a large rise in the number of job openings has boosted the vacancy-to-unemployment ratio and is putting upward pressure on wages in some sectors. Headline average weekly earnings growth is inflated by base effects – comparing with depressed wages last year – and compositional effects where there has been a fall in the number and proportion of lower-paid employee jobs. That said, underlying wage growth has picked up and is nearing 4 per cent. Some of the factors causing wage growth will prove temporary; firms responding to the faster-than-expected recovery in demand by restoring headcount are finding it challenging due to the limited pool of labour available. These frictions will dissipate as furloughed workers return to the labour market over the coming months.
- Inflation, which had been below the Bank of England's 2 per cent target for most of 2020 and into 2021 has risen sharply in recent months, with annual average CPI inflation at 3.1% in September 2021. Much of the latest rise in inflation still reflects base effects from last year, though we have seen strong relative price changes in some items such as used cars and accommodation. Looking ahead, survey measures of price pressures, producer prices and rising energy prices mean that inflation will continue to rise by year-end and will remain elevated throughout the first half of 2022. That said, we maintain that these supply-side causes of inflation: supply chain disruptions, re-opening effects and rising energy prices are transitory.
- The Bank of England has flagged concerns about how expectations of future inflation are responding to these supply shocks, communicating to the market that it stands ready to raise interest rates to mitigate any second-round effects that would put additional upward pressure on inflation. Because of this, the possibility of a December interest rate rise is live. The CBRE view is that the Bank will avoid a rate rise in December pending further information on the labour market – but we have brought forward the first interest rate rise to the middle of 2022.
- Despite our optimism, there are risks to the outlook. A bout of persistent inflation will squeeze household disposable incomes and lower consumer confidence. There is also uncertainty around the labour market and the extent to which furloughed workers will be reabsorbed.

National housing market

United Kingdom

- According to Nationwide, **the average UK house price** was £247,535 in Q3 2021, a 10.3% increase year-on-year. Monthly data shows prices decreased 0.6% in July, increased 2.0% in August and increased 0.2% in September. However, more recently, October saw a monthly decrease of 0.7%.
- Data from the Bank of England shows there were 222,050 **mortgage approvals** for house purchase in Q3 2021. Notably, this is down 11% when compared to Q3 2020 when the initial stamp duty holiday was introduced in July 2020. There has also been an easing of momentum from Q2 to Q3 2021, with three consecutive months of declines resulting is a 12% decrease from Q2 2021. Notably, September 2021 (72,645) is still 12% above the ten-year average.
- There were 331,730 **transactions** in Q3 2021, up 34% year-on-year, according to provisional figures from HM Revenue and Customs. This is down from the 185% year-on-year increase recorded in Q2 2021, however this was expected due to the unusually low levels of activity recorded in Q2 2020. The latest monthly figures show there were 160,950 transactions in September 2021, up 68% year-on-year, when the stamp duty holiday came to an end.
- According to UK Finance, there were 34,720 **First-Time Buyer (FTB) loans** in August 2021 (latest data) which accounted for 53% of all lending. The number of FTB loans was up 36% year-on-year to August 2021 and up 19% from July 2021.
- **Buy-to-let activity** increased in August 2021 (latest available data) where 7,700 loans were recorded, up from 6,800 recorded in July 2021. This was up 64% year-on-year.
- There were 15,341 **Help to Buy completions** in Q1 2021, up 61% from Q1 2020.
- The latest data from RICS (September 2021) shows demand is cooling off but continuing to outstrip supply. **The Headline Price Net Balance** in September 2021 was +68%, down from the +72% recorded in August 2021. **New Buyer Enquiries** and **New Instructions** increased slightly from August but remain low at 0% and -35%, respectively. **Agreed Sales** rose to -15%, up from -17%. **Price Expectations** fell slightly from +23% in August to +21% in September, but **Sales Expectations** rose from +6% to +11%.
- In terms of lettings, the RICS Residential Survey reported robust **Tenant Demand** at +62% in September 2021, albeit down from +66% reported in August 2021**. Landlord Instructions** remained negative at -21%, down from -20% a month prior. **Rent Expectations** across England and Wales remained firmly positive at +55%, albeit slightly down from the +64% recorded in August.
- According to the Office for National Statistics (ONS) **Private Rental Index**, average UK rents increased 1.3% in the 12-months to September 2021. This is the same annual increase seen in both July and August 2021.

The regions

- At a regional level, according to Nationwide, Wales recorded the highest **house price growth** of any region at 15.3% year-on-year to Q3 2021. This was followed by Northern Ireland (14.3%), Yorkshire & The Humber (12.3%), Scotland (11.6%), the North West (11.4%), the North (10.9%), the East Midlands (10.5%), the West Midlands (9.9%), the South West (9.9%), Outer South East (9.8%), East Anglia (8.9%), Outer Metropolitan (6.8%) and London (4.2%).
- According to the Office for National Statistics (ONS) **Private Rental Index**, the South West and the East Midlands recorded the highest rental growth both at 2.7% year-on-year to September 2021. This was followed by the North West and the East (2.3%) and the West Midlands (2.2%).
- The latest RICS Residential Survey shows that all regions had a positive **Price Net Balance** in September 2021. However, most of the regions decreased from August which include East Anglia, the South East, the South West, Yorkshire & The Humber, the North, the North West and the East Midlands. The rest increased from August which include Wales, the West Midlands, Scotland and Northern Ireland. London stayed the same.
- In the rental market, the latest RICS Residential Survey recorded a positive net balance of **Tenant Demand** across all regions in September 2021. Most of which increased from August 2021, however, Wales, the South West, North West, West Midlands and East Midlands declined. The only regions that recorded positive **Landlord Instructions** was the South West (+9%) and the East Midlands (+8%). Everywhere else recorded a negative net balance except for the North West at 0%. **Rent Expectations** were positive across all regions.

London housing market

Greater London

- According to Nationwide, the **average house price** in London was £500,980 in Q3 2021. This was an increase of 4.2% year-on-year.
- According to CBRE Research using the latest Land Registry Price Paid Data, the **average £PSF** across London was £665 in Q3 2021, down 1.5% year-on-year. **However, this doesn't represent all transactions in Q3 due to a lag in the data**. In Q2 2021, the average £PSF was £740, up 14.6% year-on-year.
- According to the official ONS House Price Index, there were 18,523 **transactions** in London in Q2 2021 (latest data), up 74% from Q2 2020 when activity was unusually low due to the effects of the Covid-19 pandemic.
- According to the ONS Private Rental Index, **rents across London** decreased 0.3% in the 12 months to September 2021. This is slightly up from the 0.4% decrease recorded in August 2021.
- **Development activity** in London weakened in Q3. Units under construction were down 11% year-on-year to Q3, however, 9% above the ten-year average. Completions across London were down 13% year-on-year and 3% below the 10-year average. New-build sales (excluding Build-to-Rent) were down 12% year-on-year, however, 2% above the 10-year average. Construction starts were also down year-on-year (-10%) and noticeably 18% below the 10-year average.
- London **Build-to-Rent (BTR) sales** increased 9% year-on-year in Q3 2021, accounting for 25% (1,734) of all new-build transactions in Q3 2021.
- The September 2021 RICS Residential Market Survey reports **Price Net Balance** in London at +42%, this is level with August 2021. **Sales Expectations** and **Price Expectations** increased at +23% and +20% in September, up from +17% and +18%, respectively, in August. **New Buyer Enquiries** increased from -15% to +23%, however, **New Instructions** decreased from -9% to -20%.

Central London

- The Central London market consists of the following local authorities; Camden, City of London, City of Westminster, Hammersmith and Fulham, Islington, Kensington and Chelsea.
- According to CBRE Research using the latest Land Registry Price Paid Data, the **average sale price** in Q3 2021 was £872,178, down 0.4% year-on-year**. However, this doesn't represent all transactions in Q3 due to a lag in the data**. In Q2 2021, this was £834,725, up 4.3% year-on-year. **Due to the Covid-19 pandemic, prices are based on fewer transactions so must be treated with caution**. In 2020 overall, the average sale price in Prime Central London was £872,178 which is potentially a more accurate representation of prices.
- According to CBRE Research using the latest Land Registry Price Paid Data, the **average £PSF** across Central London was £1,149 in Q3 2021, up 7.5% year-on-year. **However, this doesn't represent all transactions in Q3 due to a lag in the data**. In Q2 2021, the average £PSF in Central London was £1,148, up 6.9% year-on-year.

- According to the official ONS House Price Index, there were 2,037 **transactions** in Central London in Q2 2021 (latest data). This was a 60% increase from the same period of 2020, during the initial Covid-19 lockdown period.
- **Development activity** in Central London was moderately weak in Q3 2021. New-build sales were down 12%, which was 46% below the 10-year average. Total units under construction were down 12% year-on-year, and 6% below the ten-year average. However, completions were up 88% year-on-year and 38% above the 10-year average and construction starts were just over 3 times the level seen in Q3 2020 but still 69% below the ten-year average.
- There were no **BTR sales** recorded in Central London in Q3 2021. The 10-year average is 60.

Prime central London

*Given the limited number of transactions these figures should be treated with caution

- Prime Central London (PCL) consists of the following Postcode Districts; SW1A, W11, W8, SW5, SW10, W1K, WC2H, W1S, SW7, SW3, W2, WC2R, SW1P, SW1Y, SW1E, SW1X, W1J, SW1H, SW1W, W1B, W1W, W1G, W1C, W1U, W1A, W1F, W1D, W1H, WC2N, WC2B, WC2E, WC1V, WC2A, W1T, SW1V.
- According to CBRE Research using the latest Land Registry Price Paid Data, the **average sale price** in Prime Central London was £1,516,958 in Q3 2021, up 22.8% year-on-year. **However, this doesn't represent all transactions in Q3 due to a lag in the data.** In Q2 2021, the average sale price was £1,110,030, down 10.6% year-on-year. **Due to the Covid-19 restrictions and small recorded area, prices are based on fewer transactions so must be treated with caution**. In 2020 overall, the average sale price in Prime Central London was £1,222,644 which is potentially a more accurate representation of prices.
- According to CBRE Research using the latest Land Registry Price Paid Data, the **average £PSF** across Prime Central London was £1,645 in Q3 2021, up 7.5% year-on-year. **However, this doesn't represent all transactions in Q3 due to a lag in the data**. In Q2 2021, the average £PSF was £1,448, down 4.4% year-on-year.
- According to CBRE Research using the latest Land Registry Price Paid Data, **transactions** decreased to 754 in Q2 2021, down from 1,076 in Q1 2021. However, this is up 22% year-on-year due to the unusually low levels of transactions seen in Q2 2020 during the initial Covid-19 lockdown period. Transactional data for Q3 2021 is currently unavailable.
- In terms of **development activity** in PCL (as defined by the boroughs of City of Westminster and Kensington and Chelsea), units under construction were down 11% year-on-year to Q3 2021, however, 6% above the 10-year average. 194 completions were recorded in Q3 2021, level with the same period of 2020. New-build sales (excluding BTR) were down 10% year-on-year and 41% below the ten-year average. However, this is an improvement quarter-on-quarter where new build sales were up 19% to Q3 2021. There were 88 construction starts in PCL in Q3 2021, almost 3 times the level seen in Q3 2020, however, still 59% below the 10-year average at 214.

Outlook

For sale market

- Overall, **approvals** data from the Bank of England indicates that housing demand will remain robust in the short-term. Despite the end of the stamp duty holiday at the end of September, approvals remain above pre-pandemic levels. We also expect **transaction volumes** to remain relatively robust in the same period partly due to an incentive to buy before the expected interest rate rise. According to **Rightmove**, asking prices rose 1.8% in October, the highest monthly rise at this time of year since October 2015. Although more properties are coming to market it is still not enough to absorb buyer demand. Finally, the latest figures from the **RICS Residential survey** indicate most agents expect growth in prices and sales volumes over the next 3 months.
- **CBRE forecasts** an 8% rise in house prices in 2021 at a UK level. However, we expect more muted growth in 2022 – largely due to wider economic factors such as uncertainty around the labour market and the end of the stamp duty holiday. Looking out over five years we expect total growth at a UK level of 24%. London will be slightly weaker at 17%. It must be noted that these forecasts are provided with a large caveat given the uncertainty in the market. Different cities and asset types will have different nuances and face different level of challenges, which may affect their growth rates.

Rental market

- The **ONS Private Rental Index** shows rental growth has been sustained throughout Q3 2021 and we expect this to remain robust in the short-term at a UK level. **The RICS Residential survey** shows demand continuing to outweigh supply, therefore, rents are expected to increase over the next 3 months. The Covid-19 pandemic had a negative impact on tenant affordability as many employees took pay cuts (either directly or through reduced bonuses). However, more recently, underlying wage growth is stronger than it has been for some time and the furlough scheme is likely to have limited unemployment rates. We are optimistic that unemployment will continue to fall into the middle of next year.
- **CBRE forecasts** rental growth to remain broadly stable in the UK in 2021, which is largely down to reduced wage growth as a result of the coronavirus pandemic. However, we expect rents to pick up in 2022, totalling 11% over the next five years. Rental growth in London will also be -0.2% in 2021 but total 14% over the next five years. Once again, these forecasts are provided with a large caveat and different cities and asset types will have different nuances, for example, multifamily housing rents may preform differently to wider rental growth. In addition, this data does not consider any rent-free periods that effectively reduce overall rent, but don't 'actually' reduce the headline rent. Due to the uncertainty of price and rental growth in the short term, we cannot provide certainty on the years that follow as they will be heavily influenced by the short-term.

Table 1. CBRE House Price Forecasts, 2021 to 2025

Regional House Price Forecasts	2021	2022	2023	2024	2025	2021-2025
London	4%	3%	3%	3%	3%	17%
South East	7%	5%	4%	4%	4%	25%
South West	8%	5%	3%	3%	3%	24%
East of England	7%	5%	4%	3%	3%	25%
East Midlands	9%	5%	4%	3%	3%	27%
West Midlands	9%	4%	4%	3%	3%	25%
North East	10%	4%	3%	3%	3%	23%
North West	11%	5%	4%	3%	3%	29%
Yorkshire and The Humber	9%	5%	4%	3%	3%	27%
Wales	11%	4%	3%	3%	3%	26%
Scotland	8%	4%	3%	3%	3%	24%
UK	**8%**	**5%**	**4%**	**3%**	**3%**	**24%**

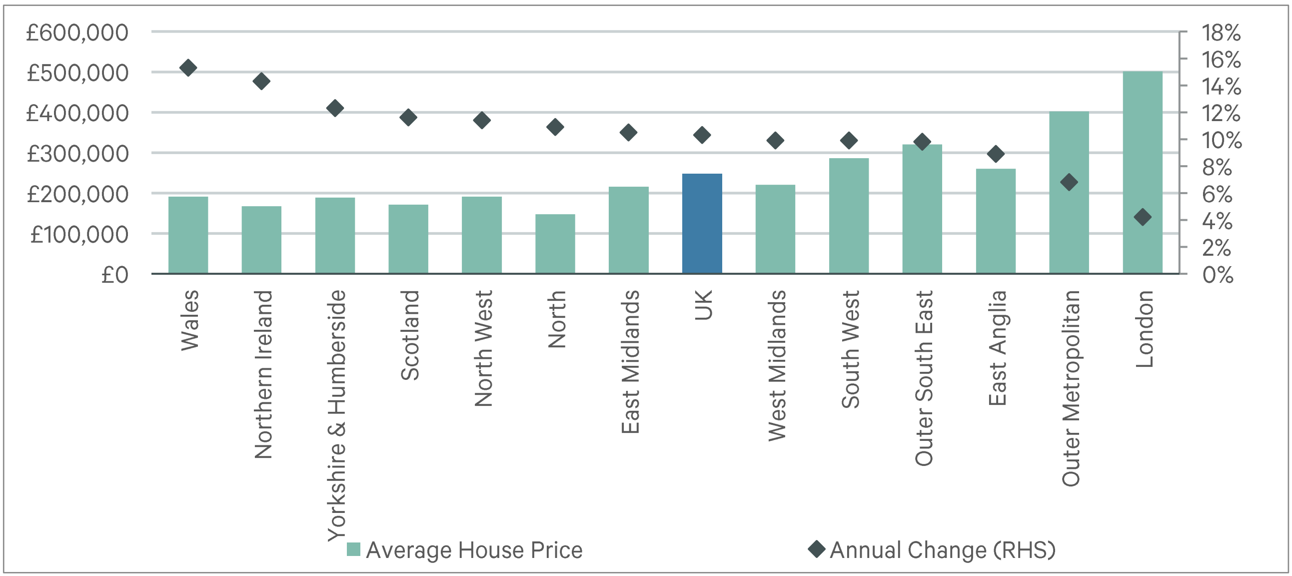
Table 2. CBRE Rental Forecasts, 2021 to 2025

Regional Rental Forecasts	2021	2022	2023	2024	2025	2021-2025
London	0%	4%	4%	4%	3%	14%
South East	0%	2%	4%	4%	3%	13%
South West	0%	2%	4%	4%	3%	12%
East of England	0%	1%	4%	4%	2%	12%
East Midlands	0%	1%	4%	3%	2%	11%
West Midlands	0%	1%	3%	3%	2%	8%
North East	0%	1%	2%	2%	2%	7%
North West	0%	1%	4%	3%	2%	11%
Yorkshire and The Humber	0%	1%	3%	3%	2%	8%
Wales	0%	1%	3%	2%	2%	8%
Scotland	0%	1%	3%	3%	2%	9%
UK	**0%**	**1%**	**3%**	**3%**	**2%**	**11%**

Source: ONS, CBRE Research

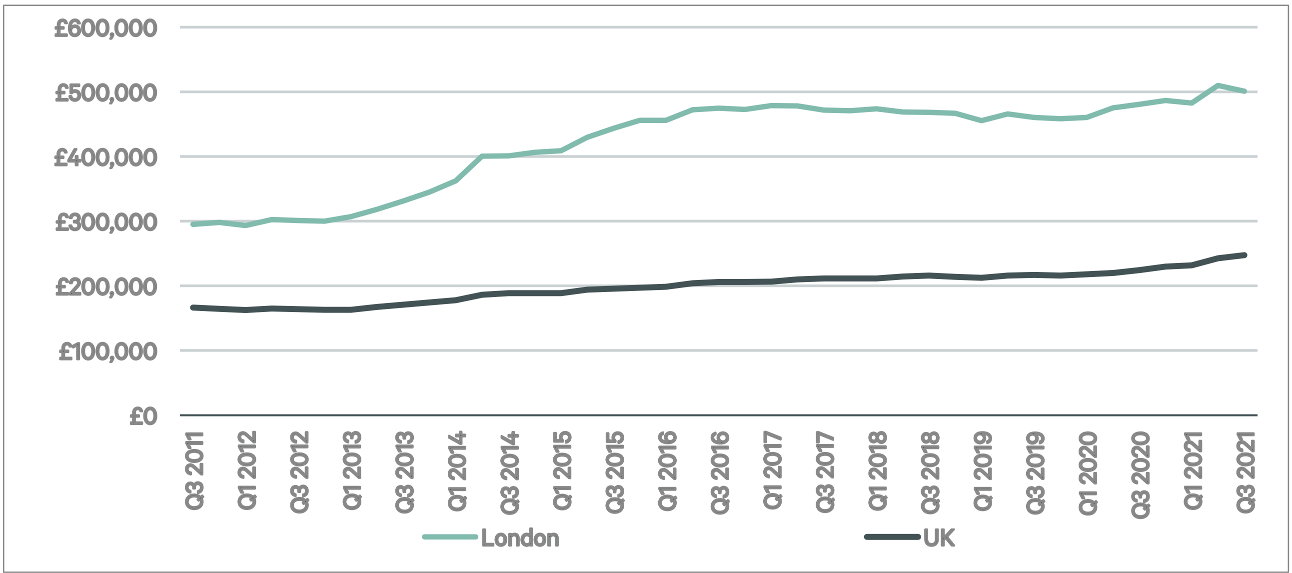
Charts

Chart 1: Average House Price and Annual Change, Q3 2021



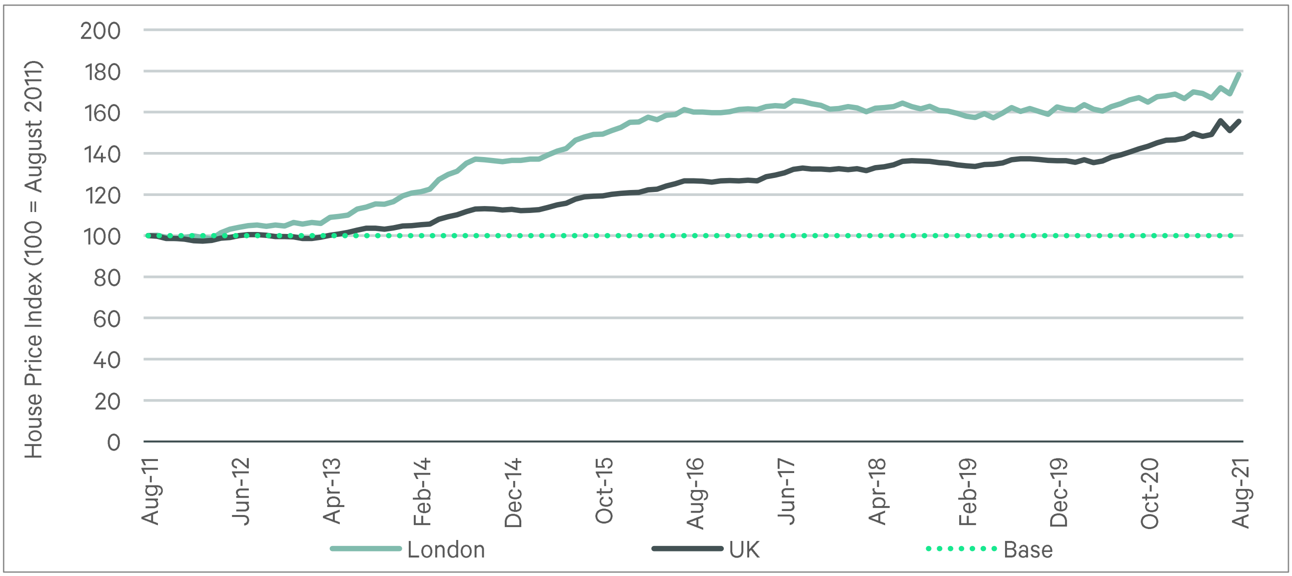
Source: Nationwide

Chart 2: Average House Price, Q3 2011 to Q3 2021



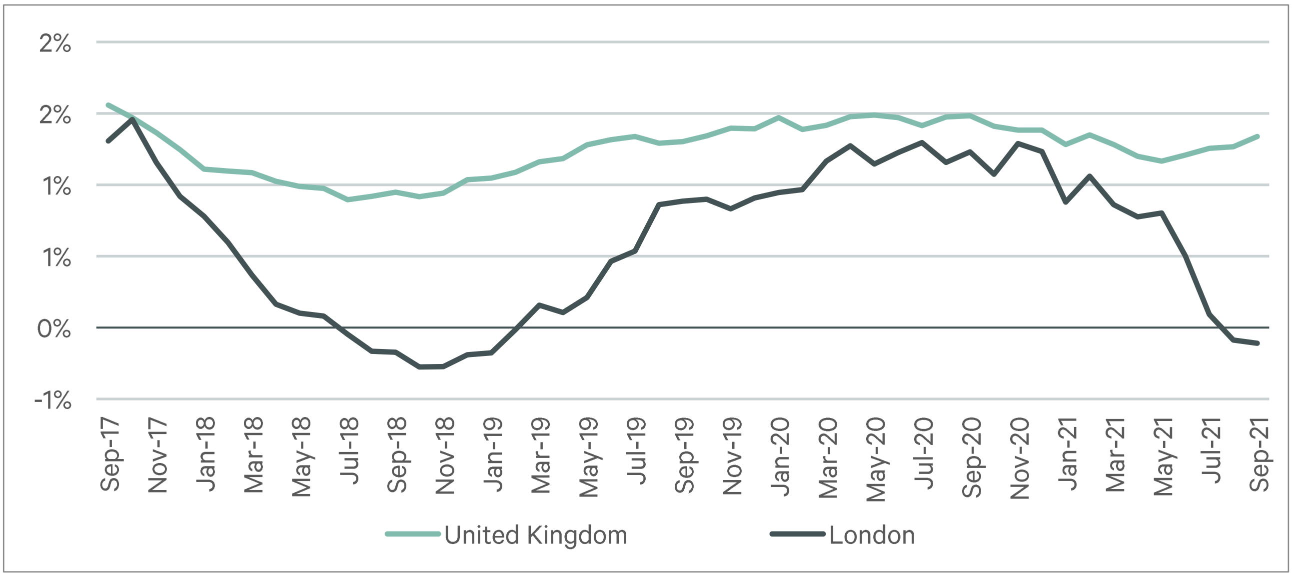
Source: Nationwide

Chart 3: Average House Price Index, August 2011 to August 2021



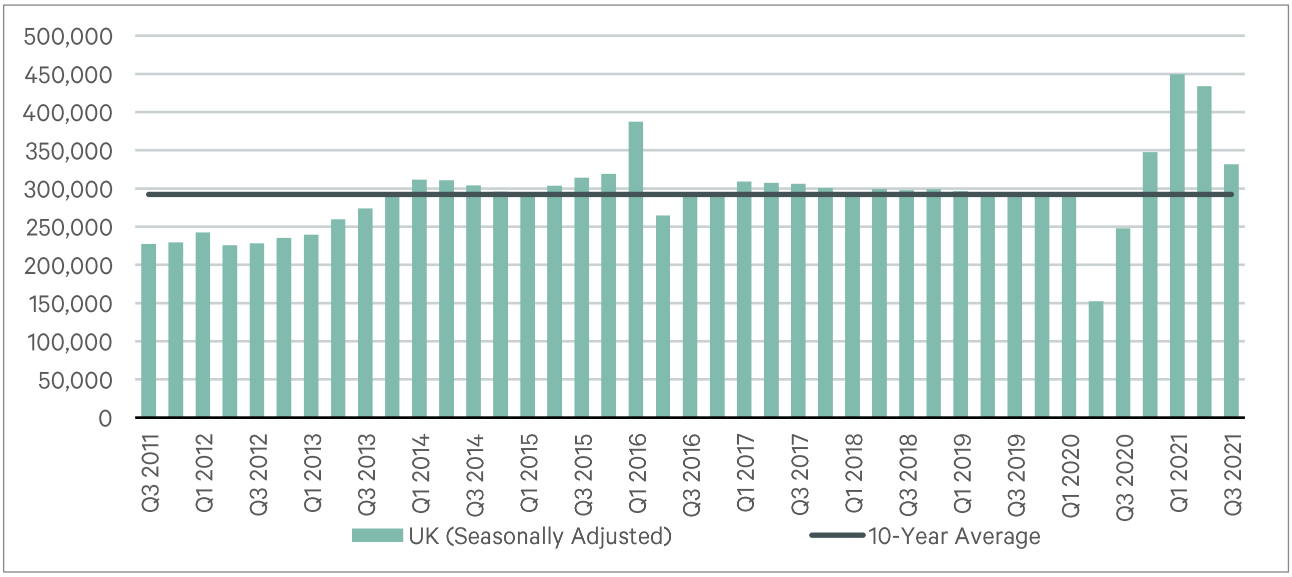
Source: ONS

Chart 4: Private Rental Index, 12-Month Price Change, September 2017 to September 2021



Source: ONS

Chart 5: Transactions, UK, Q3 2011 to Q3 2021



Source: HMRC

Chart 6: New-Build Completions*, Q3 2016 to Q3 2021

Source: Molior

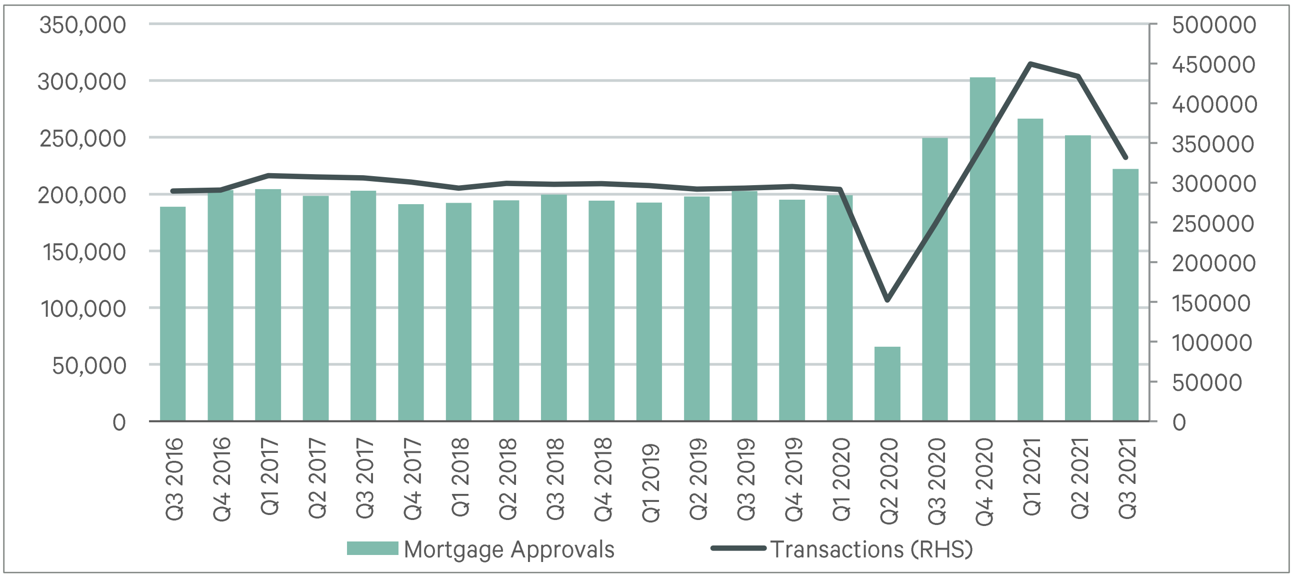
*Four-Quarter Rolling Average

Chart 7: New-Build Transactions*, Q3 2016 to Q3 2021

Source: Molior

*Four-Quarter Rolling Average

Chart 8: Mortgage Approvals (Seasonally Adjusted) and Transactions, England and Wales (E&W), Q3 2016 to Q3 2021



Source: Bank of England

Chart 9: Price Net Balance, E & W, September 2011 to September 2021

Source: RICS Residential Survey

Chart 10: Price & Sales Expectations Net Balance, E & W, September 2011 to September 2021

Source: RICS Residential Survey

Chart 11: New Buyer Enquiries & Instructions Net Balance, E & W, September 2011 to September 2021

Source: RICS Residential Survey

Methodology statement

Average house prices and transactions

When calculating average house price and transactions for defined areas using postcode districts, Land Registry Price Paid Data (PPD) data is used. Land Registry PPD is downloaded monthly and enriched with several additional data sources, allowing analyses to be performed across a wider range of geographies.

Furthermore, addresses are matched to the EPC register to enable prices to be calculated in pounds per square foot. However, due to the accuracy and recency of bulk EPC data, it must be noted that these figures are for indicative purposes only.

Figures are provided across all combinations of property age and type, excluding those defined as 'Other' by the Land Registry. There is also no distinction across differing lease or PPD Category types. Definitions can be found via gov.uk (Contents > Explanations of column headers in the PPD).

As opposed to using the arithmetic mean, average prices are calculated using the geometric mean (geomean) as it is more reliable in describing the central tendency of a set of data (i.e. it is influenced by outliers to a far lesser extent). The geometric mean is calculated by multiplying sales prices in a given area and taking the square root. This reduces the impact of any high/low sales that risk skewing the data.

Thank you

For more information

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