# United Kingdom and London

**Residential market overview**

UK Residential Research

Q1 2022

# Contents

# Economic outlook

- In February, the UK economy grew by 0.1% M-o-M, following growth of 0.8% in January.
- Industrial production, and construction both slipped in February due to higher energy prices and supply chain difficulties, but private sector services were generally strong. Consumer spending is undergoing a tug-of-war, with falls in durable goods and Test and Trace spending being offset by increases in social and office-related spending, particularly leisure spending.
- The GDP data for February will not yet reflect the fallout from Ukraine or growing staff absences owing to Covid-19. That said, the PMIs suggest that private sector activity remained buoyant in March, with UK firms still optimistic about the prospects over the coming 12 months. Because of this, the UK is on course for growth of at least 1% Q-o-Q in Q1. This is stronger than the forecast by either the Bank of England (0.75%) or the OBR (0.5%).
- The labour market continues to show strength. The ILO unemployment rate decreased to 3.8% in the three months to February, and the number of job vacancies grew by 6,000 to stay around 1.3 million in March. For the first time in 50 years, we've now got as many vacancies as there are unemployed. This suggests the labour market is extremely tight and will continue to cause problems for firms who are finding it harder and harder to fill job roles, hampering growth and risking further rises in inflation.
- However, the fall in the unemployment rate is the result of workers leaving the labour market entirely. The February ONS report suggests there are 600k fewer people in the labour force compared with pre-pandemic. Additionally, in the three months to February, regular pay growth was just above 4%. Real wages (adjusted for inflation) fell by 1% and is only likely to get worse over the coming months.
- CPI inflation rose by 7% in the 12 months to March, the highest level recorded in over 30 years. That said, there are still strong reasons to believe that inflation will drop back to 2% by the end of 2023.Used car prices fell again in March and have been a key contributor to headline inflation over the last six months and shipping costs are now falling and are almost 30% below their September peak.The futures curves for natural gas and electricity that Ofgem use to review the energy price cap are downward sloping. They suggest that following another increase in the Ofgem price cap in October of this year, there may be scope to reduce it in April and October of 2023. Regular wages are still showing minimal signs of responding to the pickup in CPI inflation.
- The Bank of England raised Bank Rate 25bp to 0.75% in its March MPC meeting, following a 25bp increase in its February meeting. With inflation set to continue rising and the labour market remaining tight, we expect that it will continue raising Bank Rate broadly in line with current market pricing. This would see Bank Rate reach almost 2% by the end of the year. Longer-term interest rates are now responding to the likely future path of short rates. The 10-year gilt yield has risen by over 100bps since the start of the year and is now at 1.9% (19 April 2022). Our central case has the 10-year gilt yield reaching 2.1% by year-end.
- To conclude, the cost-of-living crisis will worsen before it gets better. The Russia-Ukraine conflict means we expect inflation to remain elevated for longer, which will continue to squeeze household real incomes. Because of this, we have cut our UK GDP forecast to 3.3% from 4.6% in 2022. But there are still strong reasons to believe that inflation will fall back to 2% by the end of the year. If medium-term inflation expectations remain well-anchored, consumers will save less and spend more this year which will continue to support economic recovery.

# National housing market

## United Kingdom

- According to Nationwide, **the average UK house price** was £260,771 in Q1 2022, a 12.6% increase year-on-year. Monthly data shows prices increased 0.8% in January, 1.7% in February and 1.1% in March. More recently, April 2022 saw a monthly decrease of 0.3%.
- Data from the Bank of England shows there were 215,474 **mortgage approvals** for house purchase in Q1 2022. Notably, this is down 19% when compared to Q1 2021 when transactions were at record highs due to the introduction of the initial stamp duty holiday in July 2020. However, there has been a slight increase in momentum quarter-on-quarter with a 5% increase from Q4 2021 and remains 9% above the ten-year average.
- There were 334,810 **transactions** in Q1 2022, down 24% year-on-year, according to provisional figures from HM Revenue and Customs. The latest monthly figures show there were 114,650 transactions in March 2022, down 36% year-on-year, but is 16% above the ten-year average.
- According to UK Finance, there were 27,730 **First-Time Buyer (FTB) loans** in February 2022 (latest data) which accounted for 53% of all lending. The number of FTB loans were down 9% year-on-year to February 2022 but up 10% from January 2022.
- **Buy-to-let activity** increased in February 2022 (latest available data) where 8,000 loans were recorded, up from 7,200 recorded in January 2022. However, this was down 14% from February 2021.
- There were 7,270 **Help to Buy completions** in Q3 2021 (latest data), down 46% from Q3 2020.
- The RICS residential survey (March 2022) shows moderate rise in housing market activity. **The Headline Price Net Balance** in March 2022 was +74%, slightly down from the +78% recorded in February 2022. **New Buyer Enquiries** decreased slightly from +16% in February to +9% in March, albeit remains positive. **New Instructions** moved into positive territory for the first time in 12 months at +8%. **Agreed Sales** were stable at +9%. **Price Expectations** remain positive but down slightly from +34% in February to +30% in March. **Sales Expectations** increased from +11% to +16%.
- In terms of lettings, the RICS Residential Survey reported robust **Tenant Demand** at +54% in March 2022, albeit down very slightly from +55% reported in February 2022. **Landlord Instructions** moved into positive territory for the first time since July 2020 at +6%, up from -21% a month prior. **Rent Expectations** across England and Wales remained firmly positive at +64%, down slightly from +66% recorded in February.
- According to the Office for National Statistics (ONS) **Private Rental Index**, average UK rents increased 2.4% in the 12-months to March 2022. Rental growth picked up at the start of 2022, up from the 1.8% growth recorded in December 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 Q1 2022. This was followed by the South West (14.4%), the East Anglia (14.2%), Yorkshire and the Humber (13.5%), East Midlands (13.5%), the Outer South East (12.8%), North West (12.4%), Scotland (12.0%), the West Midlands (11.7%), Outer Metropolitan (11.4%), Northern Ireland (11.1%) and London (7.4%).
- According to the Office for National Statistics (ONS) **Private Rental Index**, Northern Ireland recorded the highest rental growth at 6.5% year-on-year to March 2022. This was followed by the East Midlands (3.8%) and the East (3.7%).
- The latest RICS Residential Survey shows that all regions had a positive **Price Net Balance** in March 2022. The majority of regions increased from February except for East Anglia, the North West, the South East, and Yorkshire and the Humber which decreased.
- In the rental market, the latest RICS Residential Survey recorded a positive net balance of **Tenant Demand** across all regions in March 2022. However, the majority decreased from February 2022. The regions that increased were East Anglia, the East Midlands, the North, and the South East. The East Midlands, South West, Scotland and West Midlands recorded negative **Landlord Instructions** in March 2022. **Rent Expectations** were positive across all regions.

# London housing market

## Greater London

- **Please note that due to an update in HMLR data processes there is a delay in capturing sales data and we are currently unable to publish the latest (Q4 2021) transactions volumes. This update also means that average price and average £PSF figures (from ONS HPI or Land Registry Price Paid) are based on significantly fewer transactions and must be treated with caution.**
- According to Nationwide, the **average house price** in London was £518,333 in Q1 2022. This was an increase of 7.4% year-on-year.
- According to CBRE Research using the latest Land Registry Price Paid Data, the **average £PSF** across London was £730 in Q1 2022, up 10.3% year-on-year. In Q4 2021, the average £PSF was £689, up 2.2% year-on-year. **However, this doesn't represent all transactions in Q1 2022 or Q4 2021 due to a lag in the data and the aforementioned changes to HMLR's processes**.
- According to the ONS Private Rental Index, **rents across London** were up 0.4% in the 12 months to March 2022. This is up from 0.2% in February.
- **Development activity** in London remained **robust** in Q1. Although completions across London were down 29% year-on-year and 15.3% below the 10-year average, new-build sales (excluding Build-to-Rent) improved in Q1 2022, up 28.3% year-on-year. However, remained 1.9% below the 10-year average. Construction starts improved significantly, up 102.5% year-on-year, but 3.0% below the 10-year average. Although units under construction were down 2.1% year-on-year to Q1 2022, they were still 6.2% above the ten-year average.
- London **Build-to-Rent (BTR) sales** increased significantly by 228% year-on-year in Q1 2022, accounting for 35% (2,119) of all new-build transactions in Q1 2022.
- The March 2022 RICS Residential Market Survey reports **Price Net Balance** in London at +61%, this is an increase from February 2022. **Sales Expectations** and **Price Expectations** were +39% and +36% in March, with sales expectation falling from +50% in February and price expectations remaining the same. **New Buyer Enquiries** increased from +27% to +29% and **New Instructions** increased from -6% to +13%.

## 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 Q1 2022 was £1,035,506, up 17.5% year-on-year. In Q4 2021, this was £946,679, up 9.0% year-on-year. **However, this doesn't represent all transactions in Q4 2021 or Q1 2022 due to a lag in the data and the aforementioned changes to HMLR's processes**. In 2021 overall, the average sale price in Central London was £922,704, 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 £1,174 in Q1 2022, up 8.2% year-on-year. In Q4 2021, the average £PSF in Central London was

£1,119, up 3.7% year-on-year. **However, this doesn't represent all transactions in Q4 2021 or Q1 2022 due to a lag in the data and the aforementioned changes to HMLR's processes**.

- **Development activity** in Central London moderately improved in Q1 2022. Total units under construction were up 12.4% year-on-year, and 6.0% above the ten-year average. Construction starts increased by 10.3% year-on-year to Q1 2022 but was 42.2% below the ten-year average. New-build sales (excluding BTR) were up 5.8% year-on-year in Q1 2022, but 13.8% below the 10-year average and completions were down 69.0% year-on-year, 79.1% below the 10-year average.
- There were 24 **BTR sales** recorded in Central London in Q1 2022, all of which were recorded in Camden. The 10-year average is 64.

## 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 £1,520,522 in Q1 2022, up 15.2% year-on-year. In Q4 2021, the average sale price was £1,331,232 down 6.8% year-on-year. **However, this doesn't represent all transactions in Q1 2022 or Q4 2021 due to a lag in the data and the aforementioned changes to HMLR's processes. The small recorded area also means prices are based on fewer transactions so must be treated with caution**. In 2021 overall, the average sale price in Prime Central London was £1,345,597 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 £1,618 in Q1 2022, up 9.1% year-on-year. In Q4 2021, the average £PSF was £1,551, up 3.0% year-on-year. **However, this doesn't represent all transactions in Q1 2022 or Q4 2021 due to a lag in the data and the aforementioned changes to HMLR's processes**. **The small recorded area also means prices are based on fewer transactions so must be treated with caution**.
- 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 13.1% year-on-year to Q1 2022, and 1.2% below the 10-year average. 41 completions were recorded in Q1 2022, down 74.2% from the same period in 2021. New-build sales (excluding BTR) were down 52.2% year-on-year and 46.6% below the ten-year average. There were 111 construction starts in PCL in Q1 2022, down 21.3% from Q1 2021 and still 48.6% below the 10-year average at 216.

# Outlook

## For sale market

- Overall, **approvals** data from the Bank of England indicates that housing demand has stabilised to levels seen before the initial stamp duty holiday, and remain above pre-pandemic levels. We expect demand to remain robust in the near-term. We also expect **transaction volumes** to remain relatively robust as we emerge into a more balanced market, with transaction volumes at a 5-month high in March 2022. According to **Rightmove**, buyer enquiries were up 65.0% in April 2022, above the 2019 figure. Asking prices rose 10.4% in March 2022 over the year, with 53.0% of houses selling at or over full asking price. There are early indications of more supply coming to market, but the imbalance of supply and demand is likely to remain until at least the end of the year. The latest figures from the **RICS Residential survey** shows that the gap between supply and demand is starting to close and most agents expect growth in prices and sales volumes over the next 3 months.
- **CBRE forecasts** a 7.8% rise in house prices in 2022 at a UK level, as a result of the continued supply and demand imbalance. Although rising interest rates are a headwind in the market, we don't expect these to place significant downward pressure on buyers affordability, and hence house prices growth this year. However a more subdued growth is forecast for 2023 at 1.2%. The cost of living crisis is likely to slow down economic growth and ease housing market activity, coupled with rising interest rates and mortgage rates. Looking out over to 2026 we expect the 5-year growth to be 15.7%. London will be slightly weaker than the UK in 2022 at 7.5% but will grow by 2.1% 2023. 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 strong throughout Q1 2022 and we expect this to continue in the short-term at a UK level. **The RICS Residential survey** shows supply increasing in March 2022, marking the first positive reading since July 2020. Demand is however still outweighing supply and thus rents are expected to increase over the next 3 months. The rise in inflation and cost-of-living crisis is going to have a detrimental effect on tenant affordability as household real incomes squeeze. The fall in real wages (adjusted for inflation) is also going to impact tenant affordability. However, with lease renewals broadly linked to inflation, this will likely be reflected in strong rental growth.
- **CBRE forecasts** rents to rise by 3.9% in the UK in 2022, with a further acceleration in 2023 to 4.6%. This is largely down to a strong jobs market and substantial supply and demand imbalance across the UK. Rents are expected to increase 17.8% over the next 5 years from 2022 to 2026. Rental growth in London will be lower than the UK in 2022 with a rise of 3.3%. A rise of 5.0% is predicted for 2023. 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, 2022 to 2026

| Region | 2022 | 2023 | 2024 | 2025 | 2026 | Average annual change | 5 year total* |
|---|---|---|---|---|---|---|---|
| Eastern | 9.0% | 2.3% | 0.0% | 2.9% | 3.6% | 3.6% | 18.9% |
| London | 7.5% | 2.1% | 0.0% | 3.3% | 4.1% | 3.4% | 18.0% |
| South West | 9.7% | 1.1% | 0.0% | 1.3% | 2.9% | 3.0% | 15.5% |
| North East | 5.5% | 0.0% | 0.0% | 4.0% | 4.9% | 2.9% | 15.1% |
| South East | 7.9% | 0.5% | 0.0% | 1.5% | 3.8% | 2.7% | 14.2% |
| East Midlands | 7.7% | 1.3% | 0.0% | 1.3% | 2.9% | 2.6% | 13.7% |
| North West | 6.9% | 0.5% | 0.0% | 2.4% | 3.0% | 2.6% | 13.4% |
| Wales | 8.4% | 0.7% | 0.0% | 1.3% | 2.3% | 2.6% | 13.2% |
| Scotland | 7.6% | 0.0% | 0.0% | 1.7% | 2.9% | 2.5% | 12.7% |
| Northern Ireland | 4.1% | 0.0% | 0.0% | 3.6% | 3.9% | 2.3% | 12.0% |
| Yorkshire and Humber | 5.8% | 0.8% | 0.0% | 1.9% | 3.0% | 2.3% | 11.9% |
| West Midlands | 6.8% | 0.2% | 0.0% | 1.4% | 2.9% | 2.2% | 11.5% |
| **UK** | **7.8%** | **1.2%** | **0.0%** | **2.4%** | **3.6%** | **3.0%** | **15.7%** |

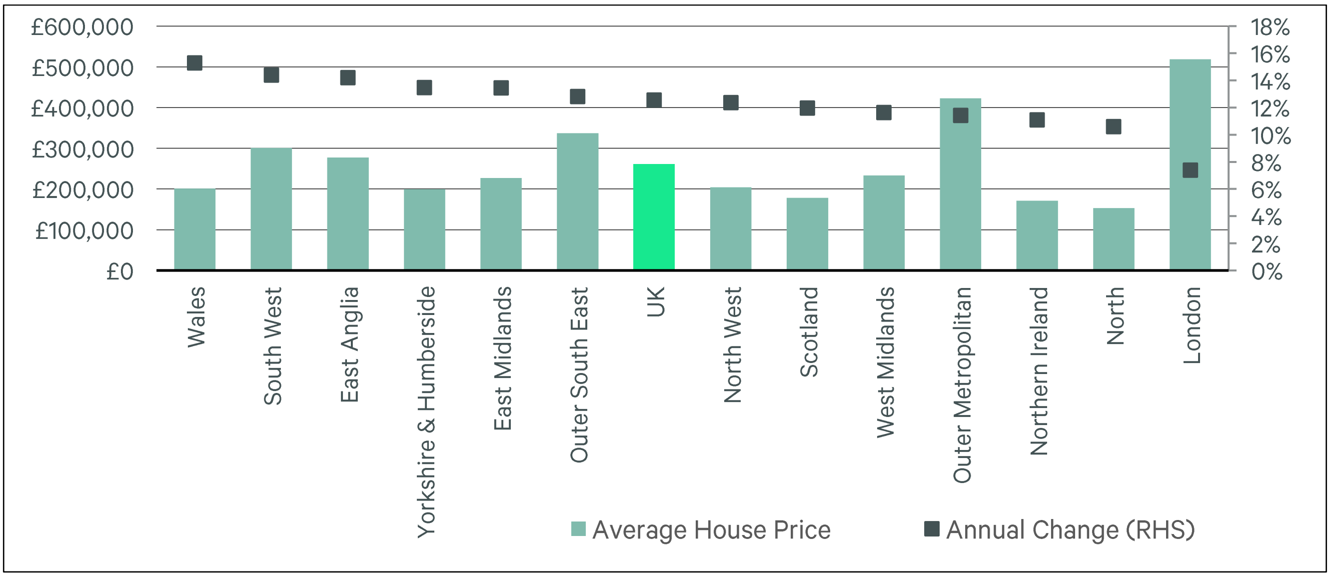
Table 2. CBRE rental forecasts, 2022 to 2026

| Region | 2022 | 2023 | 2024 | 2025 | 2026 | Average annual change | 5 year total* |
|---|---|---|---|---|---|---|---|
| South East | 5.0% | 5.8% | 4.0% | 3.3% | 3.1% | 4.2% | 23.0% |
| Northern Ireland | 4.6% | 5.4% | 3.7% | 3.0% | 2.9% | 3.9% | 21.3% |
| South West | 4.6% | 5.3% | 3.7% | 3.0% | 2.9% | 3.9% | 21.0% |
| Eastern | 4.3% | 5.0% | 3.5% | 2.8% | 2.7% | 3.6% | 19.5% |
| East Midlands | 3.9% | 4.6% | 3.2% | 2.6% | 2.4% | 3.3% | 17.8% |
| London | 3.3% | 5.0% | 3.3% | 2.5% | 2.4% | 3.3% | 17.5% |
| Yorkshire and Humber | 3.8% | 4.4% | 3.1% | 2.5% | 2.4% | 3.2% | 17.3% |
| West Midlands | 3.5% | 4.1% | 2.9% | 2.3% | 2.2% | 3.0% | 16.0% |
| North West | 2.9% | 3.4% | 2.4% | 1.9% | 1.8% | 2.5% | 13.2% |
| North East | 2.8% | 3.3% | 2.3% | 1.8% | 1.8% | 2.4% | 12.5% |
| Scotland | 2.4% | 2.8% | 2.0% | 1.6% | 1.5% | 2.1% | 10.8% |
| Wales | 1.7% | 1.9% | 1.4% | 1.1% | 1.0% | 1.4% | 7.3% |
| **UK** | **3.9%** | **4.6%** | **3.2%** | **2.6%** | **2.5%** | **3.3%** | **17.8%** |

Source: ONS, CBRE Research

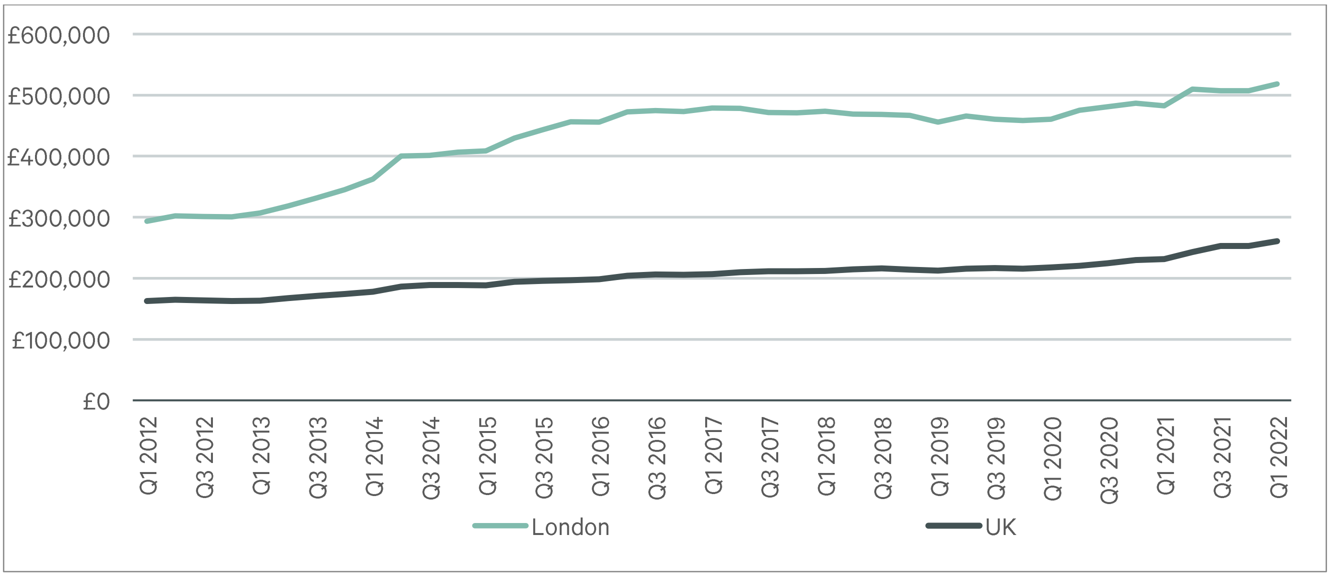
# Charts

Chart 1: Average house price and annual change



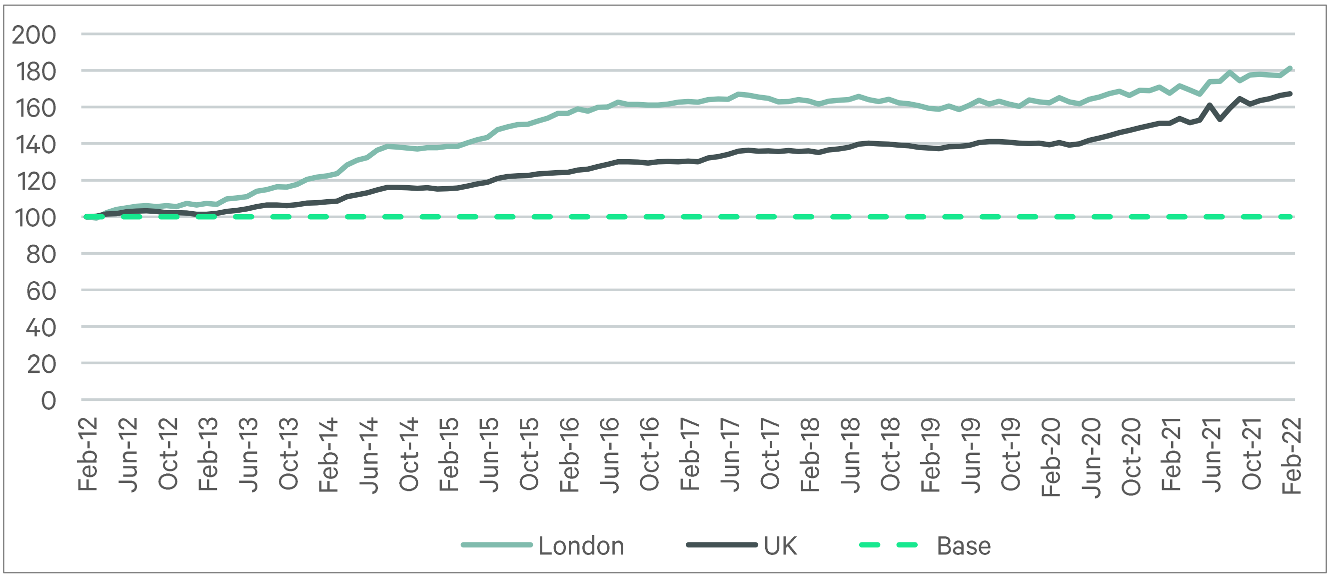

Source: Nationwide

Chart 2: Average house price



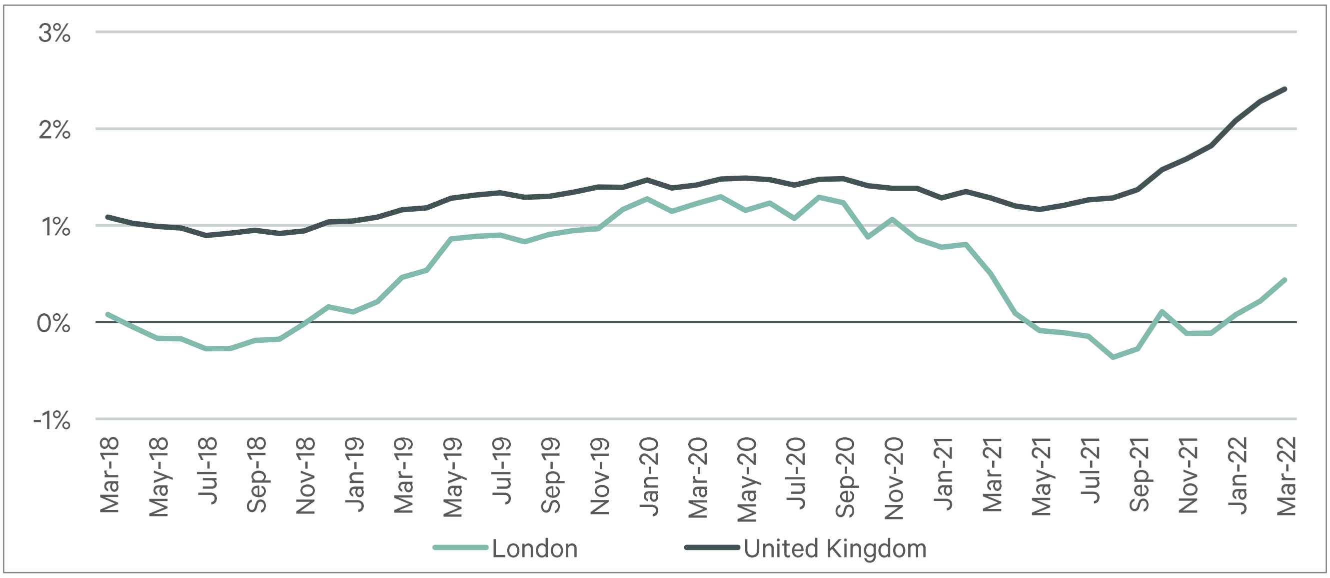

Source: Nationwide

Chart 3: Average house price Index



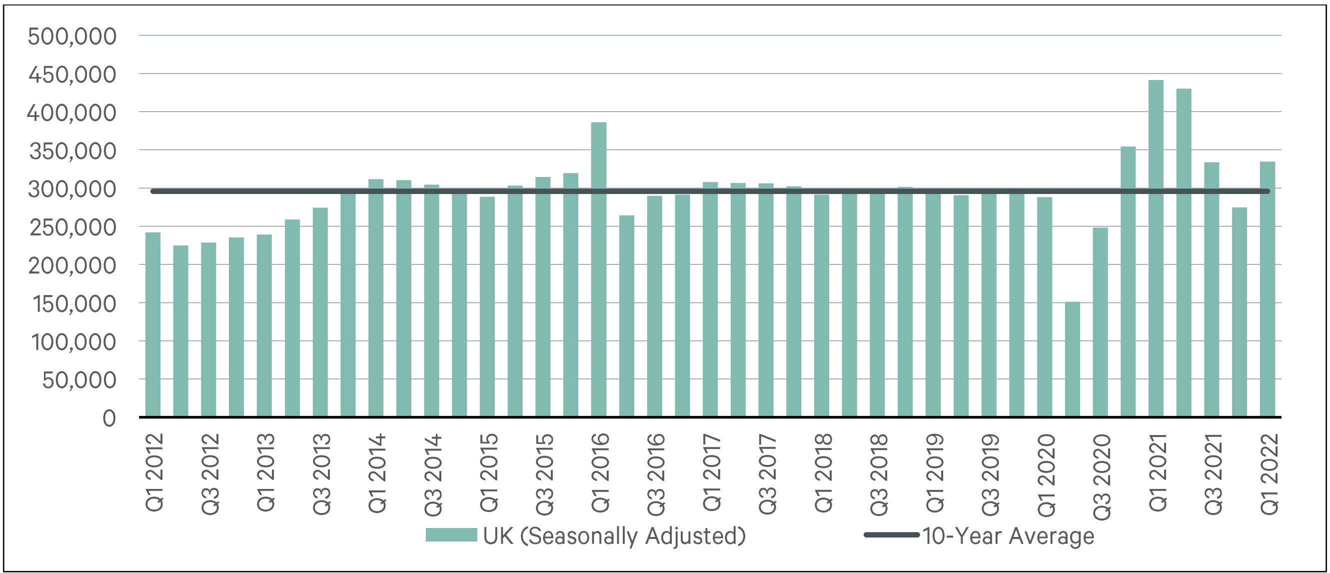

Source: ONS

Chart 4: Private rental index, annual change



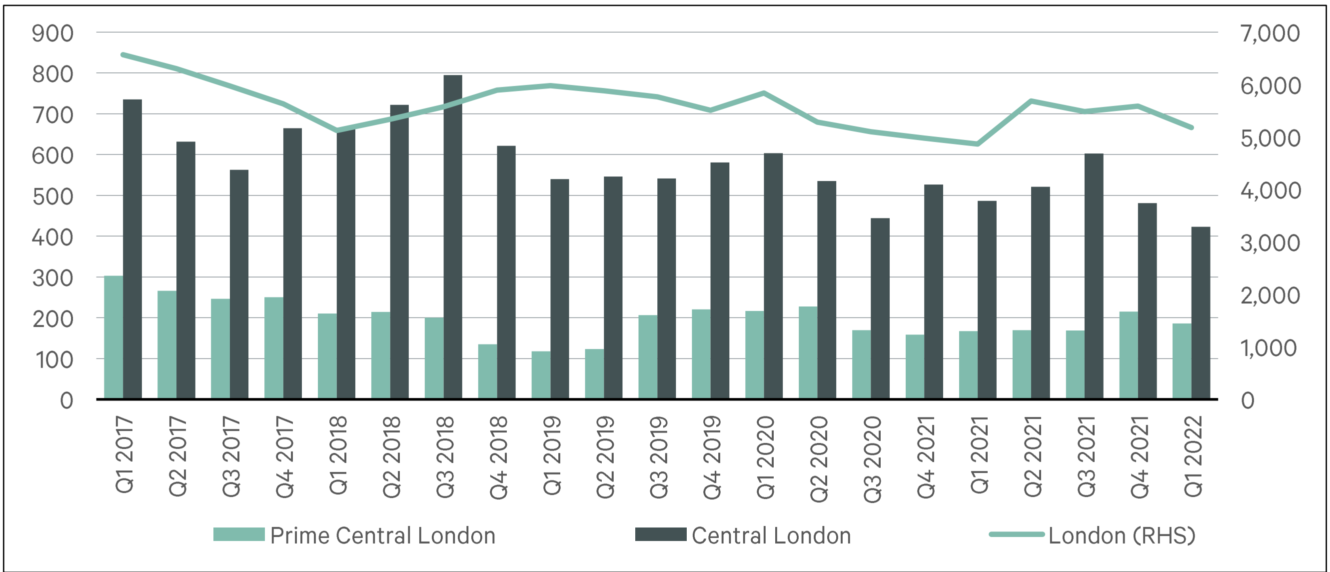

Source: ONS

Chart 5: Transactions, UK




Source: HMRC

Chart 6: New-build completions*




Source: Molior

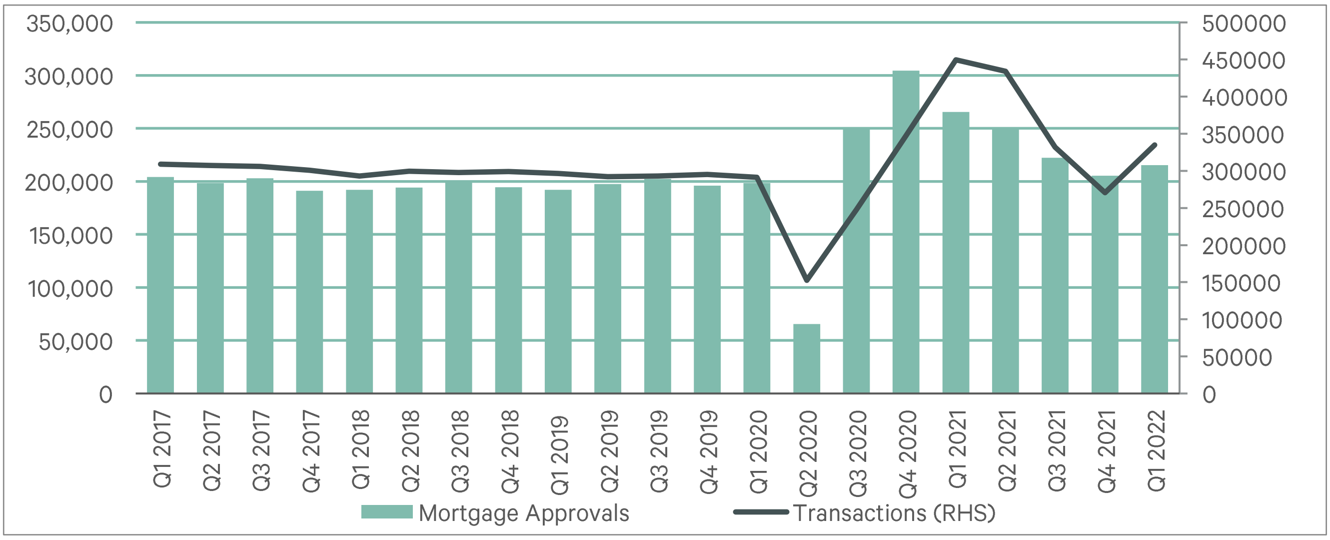
*Four-quarter rolling average

Chart 7: New-build transactions (without BTR)*


Source: Molior

*Four-quarter rolling average

Chart 8: Mortgage approvals (seasonally adjusted) and transactions, England and Wales (E&W)




Source: Bank of England, HMRC

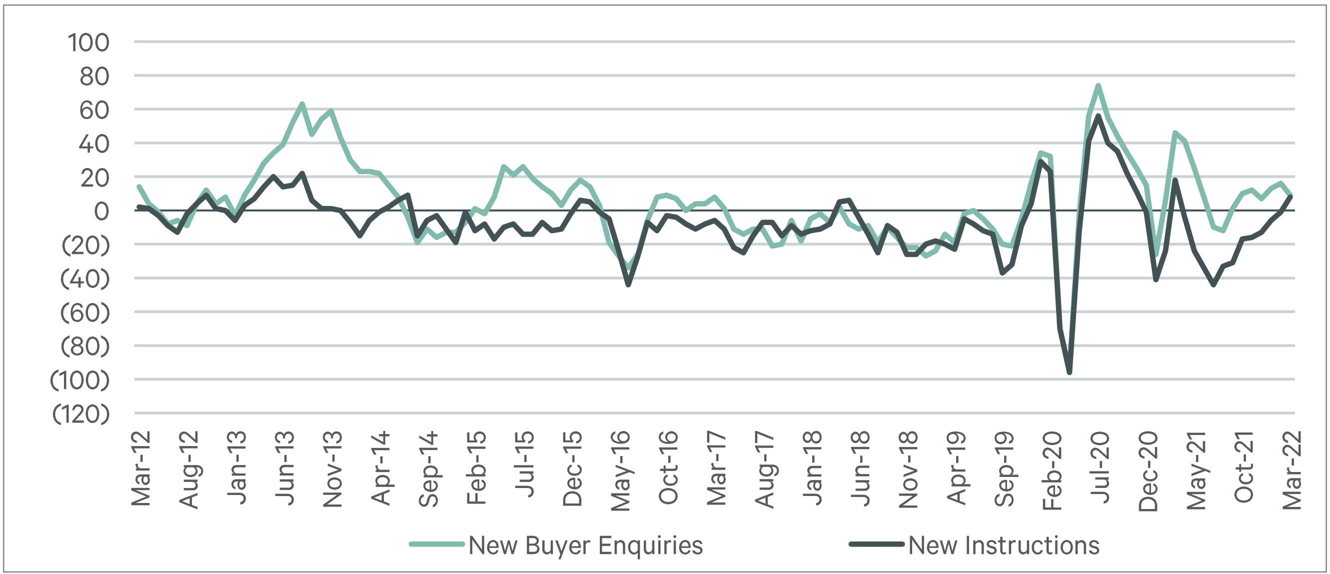
Chart 9: Price net balance, E & W


Source: RICS Residential Survey

Chart 10: Price & sales expectations net balance, E & W


Source: RICS Residential Survey

Chart 11: New buyer enquiries & instructions net balance, E & W




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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