

# Market Commentary

Residential Analysts

## United Kingdom – January 2022

- **Supply & Demand**
- **Cost of Living Squeeze**

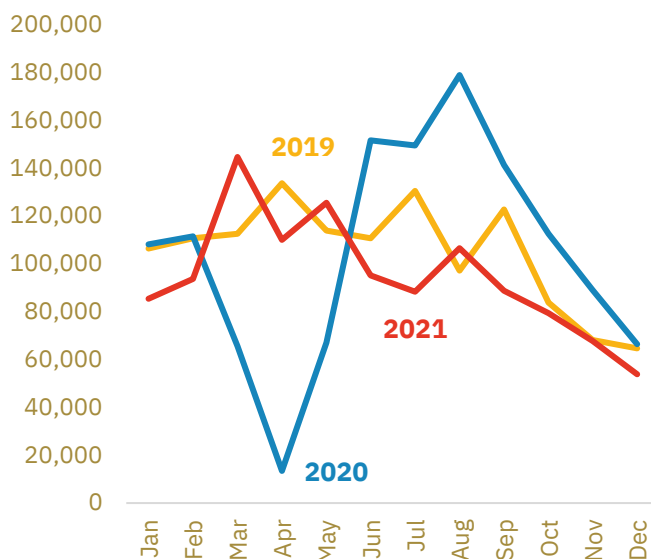
House prices are still rising rapidly as the supply squeeze drives competition amongst buyers. But the rising cost of living and increasing interest rates are a major risk to the housing market with private renters most exposed.

### Supply & Demand

House prices have continued to rise rapidly in the new year as the lack of homes available for sale drives competition amongst buyers. Every month appears to bring new house price records. In January, the [Nationwide](#) index reported the “strongest start to the year for 17 years” while the [Rightmove](#) house price index for first time buyers hit new highs. A key factor behind these rapid price rises is the low number of homes available for sale. Rightmove reported just 12 homes for sale per estate agent while the [RICS](#) market survey shows average stocks per surveyor are near the record lows recorded during the market shutdown. While the number of homes being listed (Fig 1) has been slightly lower than prior to the pandemic, the higher levels of transactions have quickly shrunk the available stock for sale that built up following the market reopening in the summer of 2020. Although there are initial reports that the supply squeeze should ease as the spring selling season gets properly underway, the continued high levels of buyer activity suggest no immediate end to these rapid rises in house prices.

**Fig 1: Rightmove New Listings**

Source: Based on Rightmove house price sample size

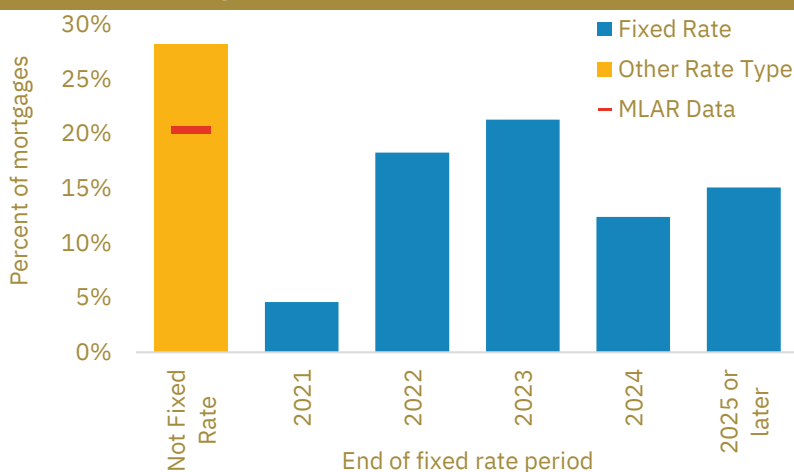


### Cost of Living Squeeze

House price growth may show no immediate sign of slowing but the rising cost of living and increasing interest rates might suggest otherwise. Increasing interest rates may not be the powerful tool they once were. The number of outstanding owner-occupier mortgages has fallen back to levels last seen in the late 1980s and most are on fixed rates. This situation suggests the immediate impact of any rate rises on existing owners will be limited. However, data from the Bank of England’s NMG survey suggests many of those fixed rates are due to end in the next few years. There may have been a shift to five-year fixed rate periods, but it’s a trend that started several years ago and many fixed rate mortgage holders could find themselves in a higher mortgage rate environment when their fixed rate period comes to an end.

**Fig 2: Mortgage Rate Type & Fixed Rate End Year**

Source: Bank of England NMG Survey, FCA MLAR – September 2021



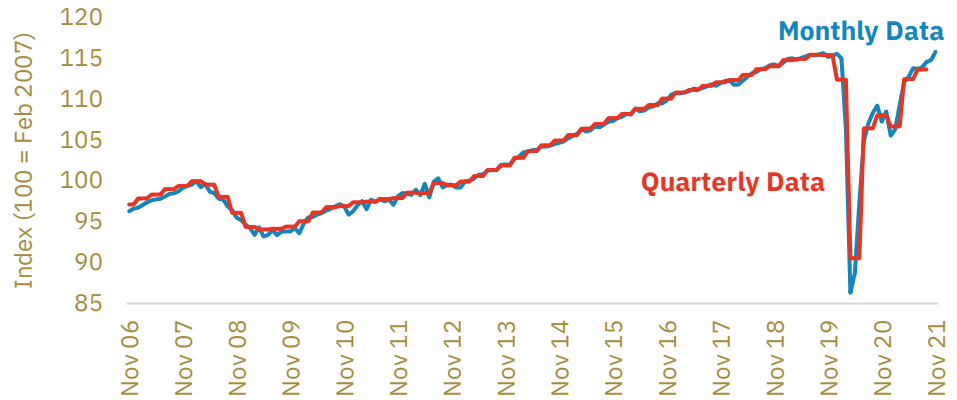
Unfortunately, it is not clear what impact interest rates will have on the rising cost of living, especially external factors like energy costs. Despite the latest rise in base rate, the [Bank of England](#) is forecasting inflation to rise to around 7% in Q2. While there has been some debate about the impact of inflation on the income distribution, it is clear that lower income households have lower (if any) financial reserves to help them through this period. The situation for private renters is particularly fragile thanks to rapidly rising rents. It is here that we’re likely to see signs of stress in the housing market emerge and so we will be keeping a close eye on the private rental market this year, though better public data would help.

# Market Commentary

## Market At A Glance

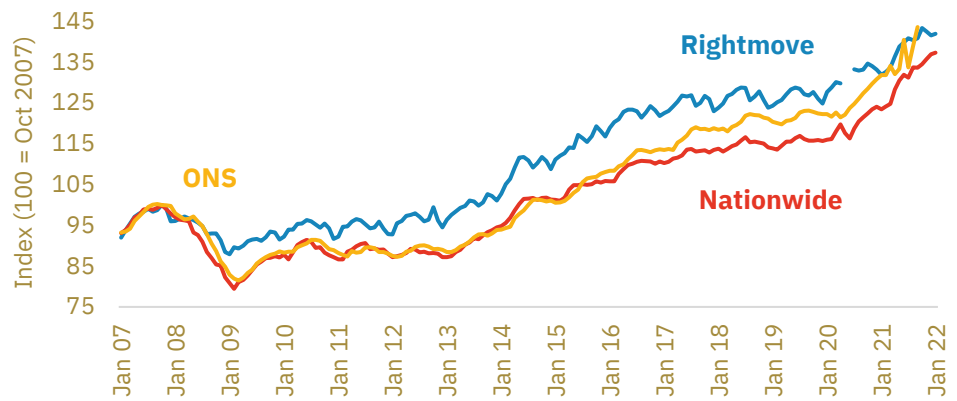
### Economy - UK

The ONS monthly estimates reported GDP was 8.0% higher in November 2021 than the same month in 2020. This pushed monthly GDP 0.2% higher than the pre-pandemic peak recorded in January 2020. However, this data will inevitably be revised in coming months and years.



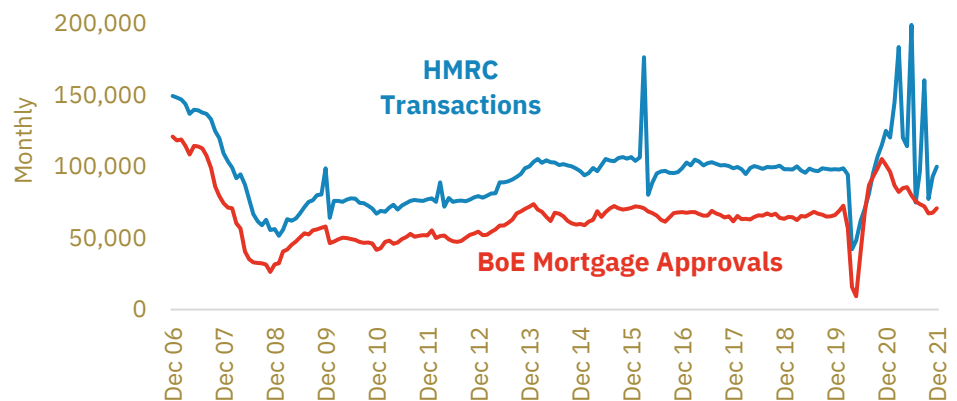
### House Prices - UK

Rightmove reported a 7.6% annual rise in asking house prices in January 2022 while Nationwide reported an 11.2% annual rise in their mortgage approval based index in the same month. Meanwhile, the ONS reported 10% annual growth in its sales agreed index in the year to November 2021.



### Transactions - UK

HMRC provisionally reported 100,110 residential transactions in December. This was 2% higher than the same month in 2019 and slightly higher than the pre-pandemic average. The Bank of England reported mortgage approvals for house purchase were 7% higher in December 2021 than the same month in 2019.



### New Supply - England

The latest net additions data for 2020/21 reported a 216,490 net new homes in England with 194,000 new build completions. The latest quarterly house-building data suggests new build completions were 228,000 in Q3 while the number of new build Energy Performance Certificates was 244,000 in Q4.

