

# Market Commentary

Residential Analysts

## United Kingdom – February 2022

- **Rising Prices & Russian Buyers**
- **Supply, Demand, & Mortgage Rates**

There are more important issues facing the world than what is happening in the UK's housing market. It can be difficult to focus on topics like housing in the face of the constant news stream from the horrific war in Ukraine but there is little we can add to that debate. Therefore, we will stick to what we know best by continuing to look at recent trends in the housing market while highlighting some potential impacts that the war might have.

### Rising Prices & Russian Buyers

The long-term impact of the war is far from certain but there are already some clear short-term issues that it creates for the UK's housing market, some more direct than others. Perhaps the most immediate impact will be via the already rapidly rising cost of living, with even more pressure on household bills. It is also worth noting that rising oil prices and inflation have been closely correlated with previous market downturns – especially [1973](#) and [1979](#). However, it is also possible that interest rates may now stay lower for longer than previously expected which further complicates the process of assessing what might happen to house prices given their importance.

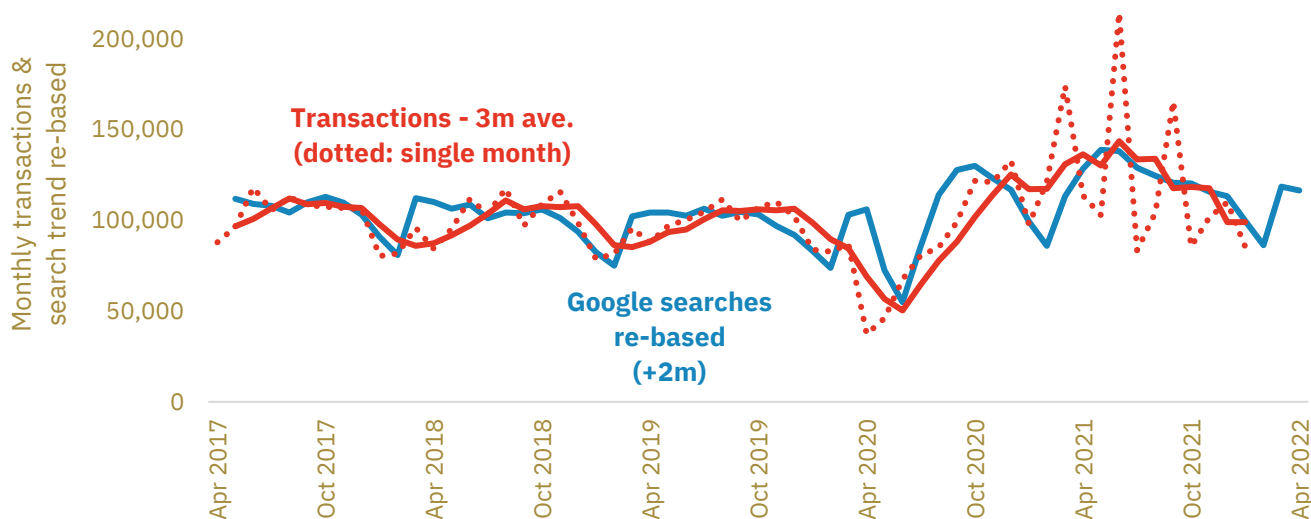
The top-end of the market is facing uncertainty thanks to sanctions and the proposed introduction of [The Register of Overseas Entities](#). Public data on who actually buys top-end residential property has been limited in recent years as the last detailed reports by agents were published in 2013, including these by [Savills\(PDF\)](#) and [Knight Frank\(PDF\)](#). More recent work by the [Centre for Public Data](#) has increased our understanding of property ownership by overseas individuals but more transparency on the actual owners is required. Meanwhile, the last two years have seen widespread disruption and uncertainty across the globe that the war now adds to but, for the time being, the UK housing market is doing what it does best with house prices rising rapidly to new record highs.

### Supply, Demand, & Mortgage Rates

Despite the cost of living crisis and rising mortgage rates, every month brings reports of UK house prices hitting new record highs. This situation partly reflects the high number of people still looking to buy a home despite the end of the stamp duty holidays. Although the spring market means more homes are being listed for sale, the number available still isn't high enough to meet these higher levels of demand. However, as the chart below shows, the level of buyer interest - measured by Google searches for Rightmove - has been a good leading indicator for transaction levels in recent years. The latest data suggests transactions in March/April could be 10-15% higher than prior to the pandemic. If the lack of stock really starts to hit, we could see transactions fall below these levels. The current situation also reflects what is happening to mortgage rates. Although rates are rising, the latest [Bank of England](#) data shows the average rate on new secured lending (1.58%) was still below the rate on outstanding secured lending (2.01%) in January. New borrowers are still benefiting from low rates, even if they're not quite the record lows seen last year. For the time being at least, these conditions will continue to support higher house prices while the cost of living crisis falls hardest on households in the rental sectors.

**Fig 1: UK Transactions & Google Searches for "Rightmove"**

Source: HMRC, Google Trends - not seasonally adjusted

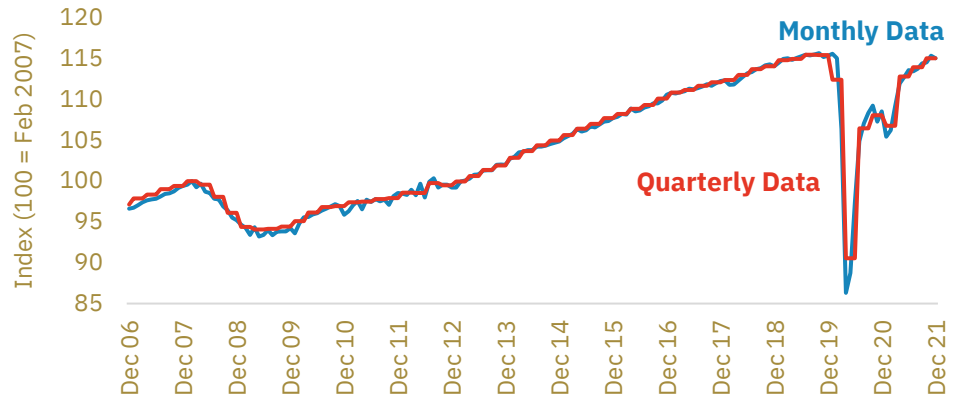


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## Market At A Glance

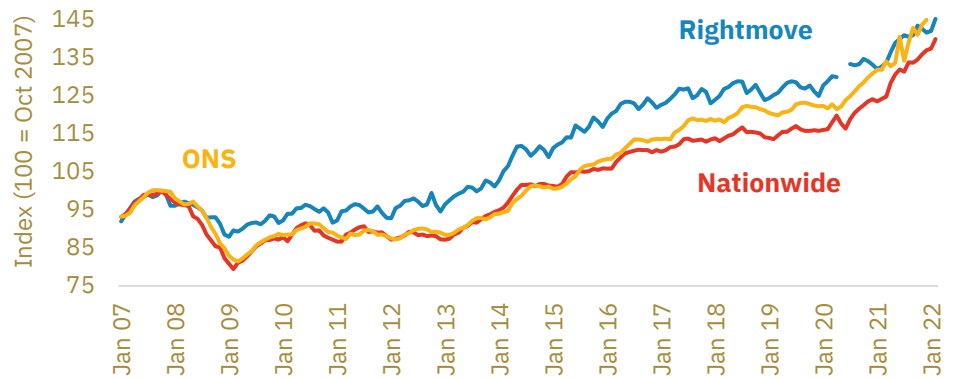
### Economy - UK

The ONS monthly estimates reported GDP was 6.0% higher in December 2021 than the same month in 2020. This left monthly GDP just 0.5% lower than the pre-pandemic peak recorded in January 2020. However, this data will inevitably be revised in coming months and years.



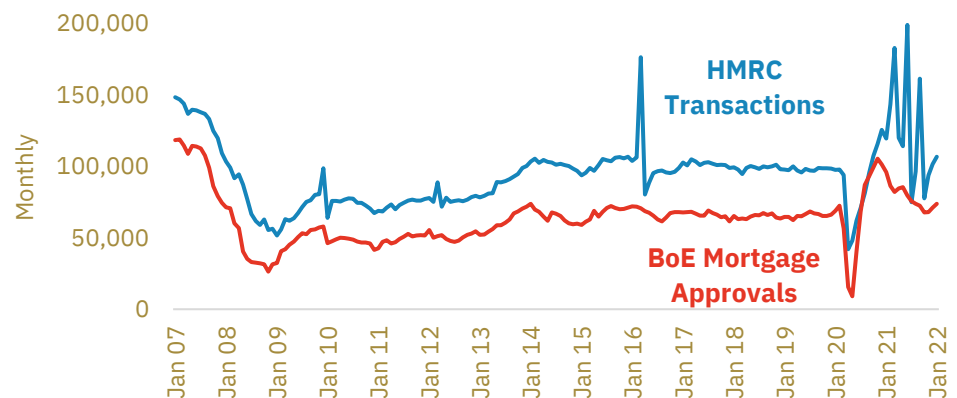
### House Prices - UK

Rightmove reported a 9.5% annual rise in asking house prices in February 2022 while Nationwide reported a 12.6% annual rise in their mortgage approval based index in the same month. Meanwhile, the ONS reported 10.8% annual growth in its sales agreed index in the year to December 2021.



### Transactions - UK

HMRC provisionally reported 107,000 residential transactions in January. This was 9% higher than the same month in 2019. The Bank of England reported mortgage approvals for house purchase were 14% higher in January 2022 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.

