

# Market Commentary

Residential Analysts

## United Kingdom – March 2022

- Record Low Rates, Record High Prices
- Cost of Living & Housing Market Downturns
- Regional Transactions

Every week brings new reports of record high house prices despite the soaring cost of living as mortgage rates remain low – for the moment. While last year's Spring Budget all but guaranteed that 2021 would end with a housing boom, this year's Spring Statement brought no guarantees for the housing market. However, the lack of support for households in the face of the soaring cost of living is likely to further reinforce the inequalities in the housing market. Renters will struggle most and the threat of a future housing market downturn has increased.

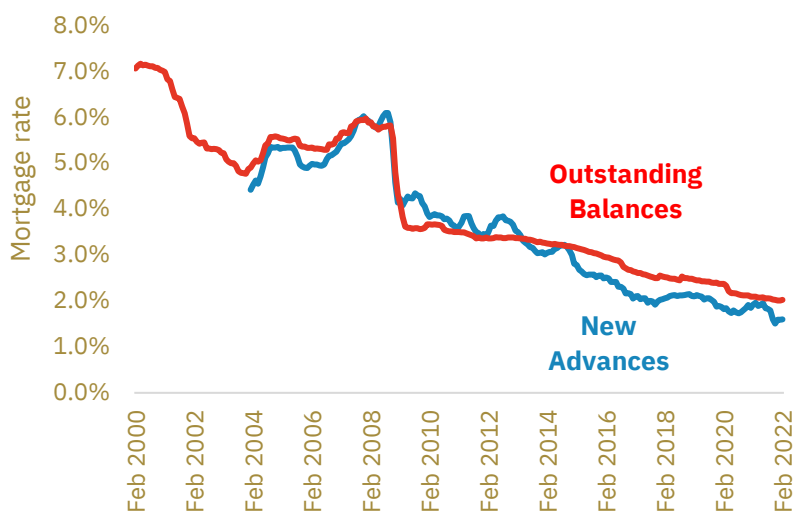
### Record Low Rates, Record High Prices

House prices are rising rapidly but they are supported, for the time being, by low mortgage rates. Just today, the Nationwide house price index [reported](#) an annual price rise of 14.3% in March, the highest annual growth rate since November 2004. This rapid rise in house prices might be shocking given the events of the last two years but they are consistent with the underlying economic trends – specifically mortgage rates, wages, and excess savings – and the higher levels of demand for home purchases seen since the housing market reopened in summer 2020.

The lack of homes available for sale is undoubtedly contributing to increased competition in the sales market but it is low mortgage rates that have helped drive house price to new highs. The number of homes available for sale has collapsed over the last year as more people than usual compete for new listings that are stuck at levels similar to those seen prior to the pandemic. However, it is record low mortgage rates that have been helping many buyers actually pay more. While quoted mortgage rates have started rising, especially at lower loan-to-value ratios, the average rate on new advances is still near record lows (Fig 1). It is likely that some of the current high levels of activity reflect a rush to buy before rates rise more, with some buyers hoping to complete before their rate offer expires.

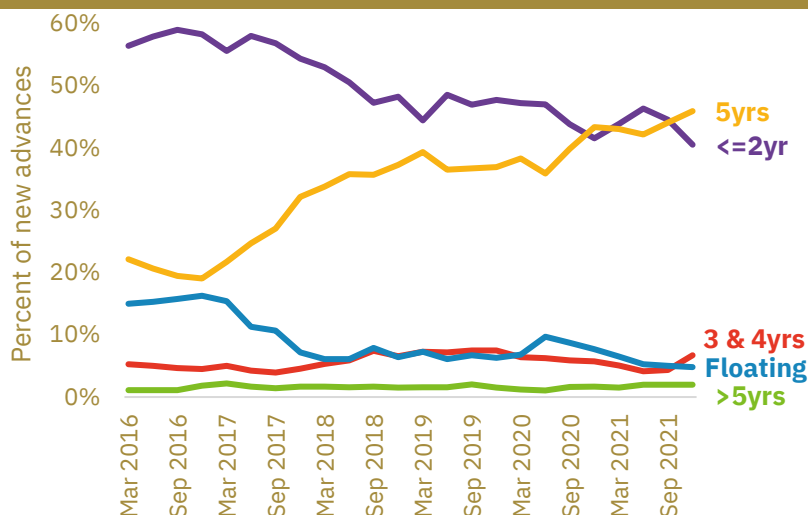
**Fig 1: Average Mortgage Rate**

Source: Bank of England



**Fig 2: Fixed Rate Period of New Mortgages**

Source: Bank of England



For the time being, most people buying or remortgaging are benefitting from lower rates than they were previously on. As Fig 1 shows, the average mortgage rate on new advances was still below the average rate on outstanding mortgages in February. With most recent new mortgage advances on either two or five year fixed rate periods (Fig 2), the majority of those moving or remortgaging will be benefitting from a lower mortgage rate than they were previously on. However, the margins are fine and even a small rise in average mortgage rates (to around 2%) could see this situation reverse. Meanwhile, first time buyers are still benefitting from the recovery in the higher loan-to-value mortgages and could be a significant driver of current activity levels.

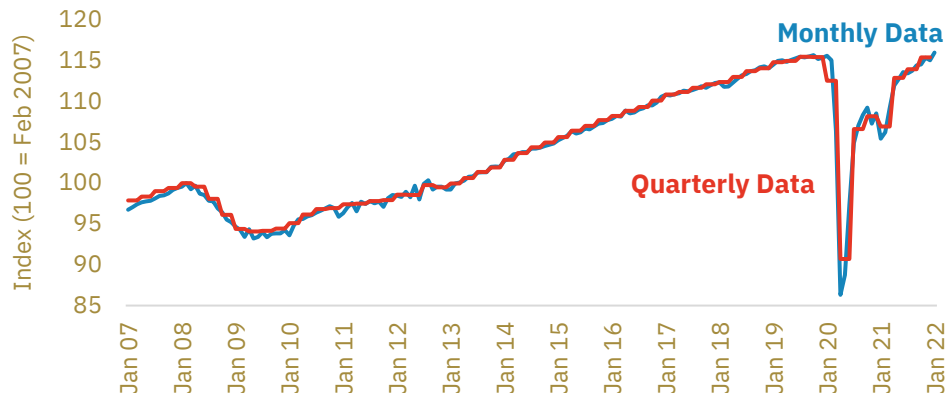


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## Market At A Glance

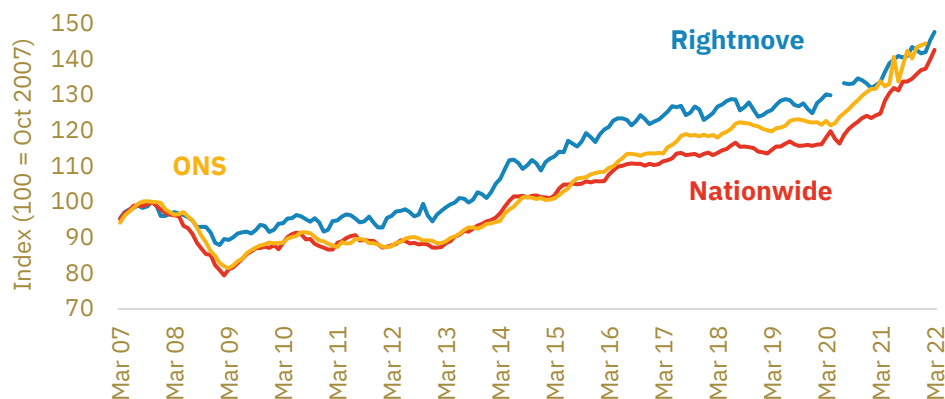
### Economy - UK

The ONS monthly estimates reported GDP was 10% higher in January 2022 than the same month in 2021. This left monthly GDP just 0.3% higher than the pre-pandemic peak recorded in January 2020. However, this data will inevitably be revised in coming months and years.



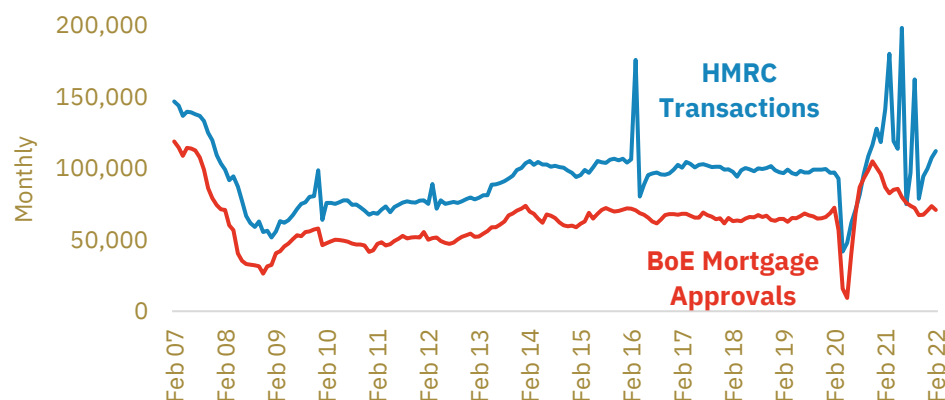
### House Prices - UK

Rightmove reported a 10.4% annual rise in asking house prices in March 2022 while Nationwide reported a 14.3% annual rise in their mortgage approval based index in the same month. Meanwhile, the ONS reported 9.6% annual growth in its sales agreed index in the year to January 2022.



### Transactions - UK

HMRC provisionally reported 112,000 residential transactions in February. This was 16% higher than the same month in 2019. The Bank of England reported mortgage approvals for house purchase were 10% higher in February 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 there were 220,000 new build completions in 2021 while there were 244,000 new build Energy Performance Certificates during the year – a leading indicator for net housing supply.

