

# Market Commentary

Residential Analysts

## United Kingdom – July 2022

- Signs of Stress
- The Turning Point

House prices are still booming but the rising cost of living and increasing interest rates are starting to hurt. The market is still benefiting from the boom in buyers and a lack of stock but there are some potential signs of stress starting to appear. While the cost of living crisis is hurting those at the lower end of the income distribution most and rising rates will hit potential buyers rather than existing owners, the squeeze is only going to increase in coming months. The autumn could mark the turning point for the housing market.

### Signs of Stress

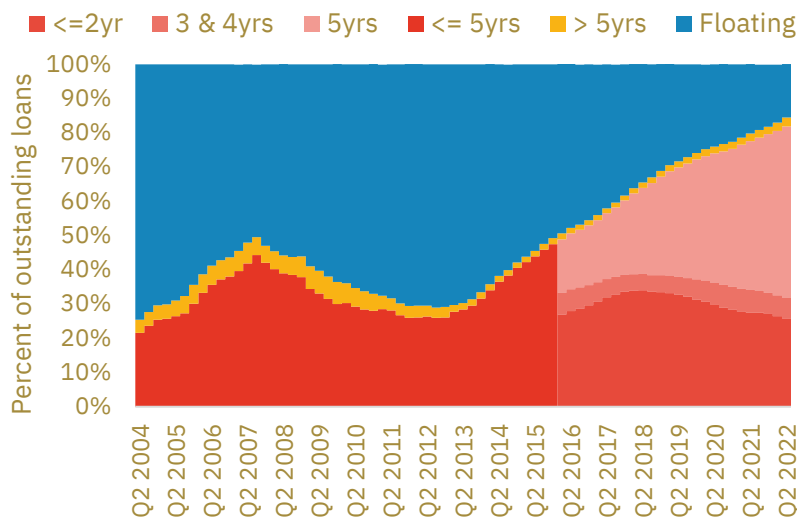
House price indices are still reporting rapid price rises but there are some signs of stress starting to appear. Most indices are still reporting price rises of around 10% per annum as buyers rush to lock in low mortgage rates. However, those that still have agreements in principle from earlier this year will be diminishing and there are some signs that activity is slowing - mortgage approvals for house purchase were 4% lower than their pre-pandemic average in June and HMRC reported a sharp slowdown in transactions during the same month. However, there are some doubts as the fall in transactions may reflect a data issue rather than market trend as planned database downtime required HMRC to gross-up the available data. Next month's release should provide confirmation or not.

Mortgage rates are rising rapidly but this is likely to be a more immediate issue for new buyers rather than existing owners. As Fig 1 shows, there has been a significant shift towards fixed rates over the last decade and recent years have seen a big increase in the proportion fixed for five years. While still relatively short in comparison to other markets, this should limit the immediate impact on existing owners. Meanwhile, recent price rises should ensure most can still meet loan-to-value requirements and re-fix rather than end up stuck on an SVR.

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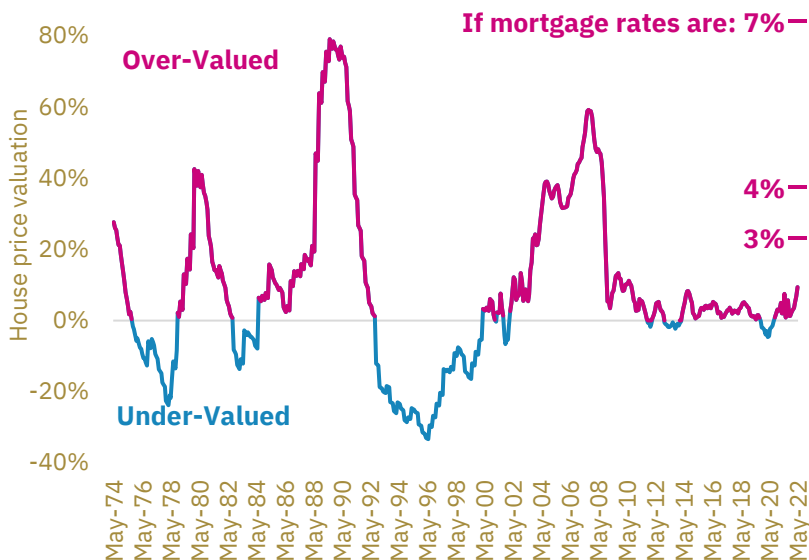
**Fig 1: Fixed Rate Period of Outstanding Mortgages**

Source: Bank of England – mortgage term at point of issue



**Fig 2: Actual Prices Compared to Modelled Prices**

Source: ONS, Bank of England - UK



### The Turning Point

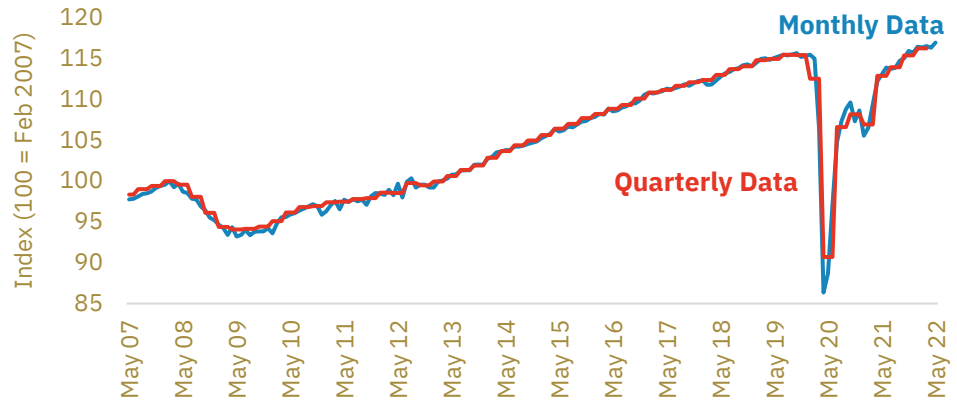
With rapidly rising prices and rates, the affordability of UK house prices is now starting to look stretched. As Fig 2 shows, UK house prices were 9% over-valued in May based on some simple assumptions and a mortgage rate of 1.96%. That rate has now risen to 2.16% in June and quoted mortgage rates were already approaching 3% last month. At a rate of 3%, prices would be 23% over-valued. While not a sign of an imminent crash, the market is clearly very sensitive to even small rate rises. However, this situation is still more likely to lead to a downwards turn in activity rather than prices, at least in the short-term. With existing owners under no pressure to sell and with price expectations firmly set by the recent boom, many will sit tight rather than meet the more constrained affordability of potential buyers.

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## Market At A Glance

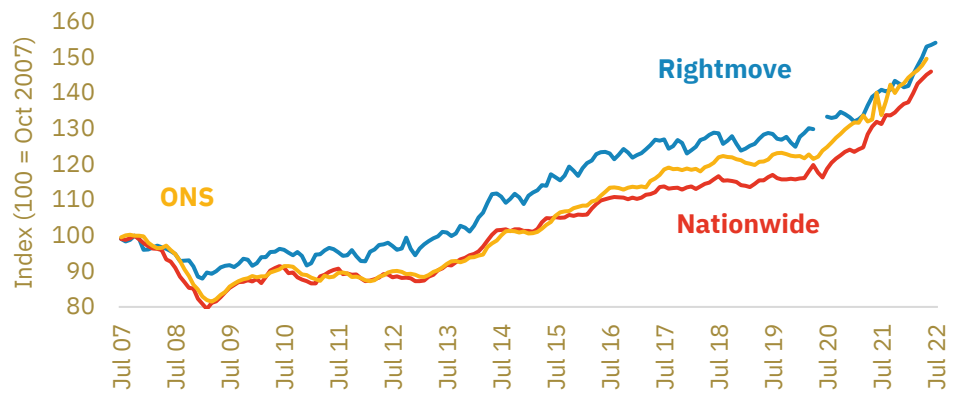
### Economy - UK

The ONS monthly estimates reported GDP was 3.5% higher in May 2022 than the same month in 2021. This left monthly GDP just 1.3% higher than the pre-pandemic peak recorded in January 2020. However, this data will inevitably be revised in coming months and years.



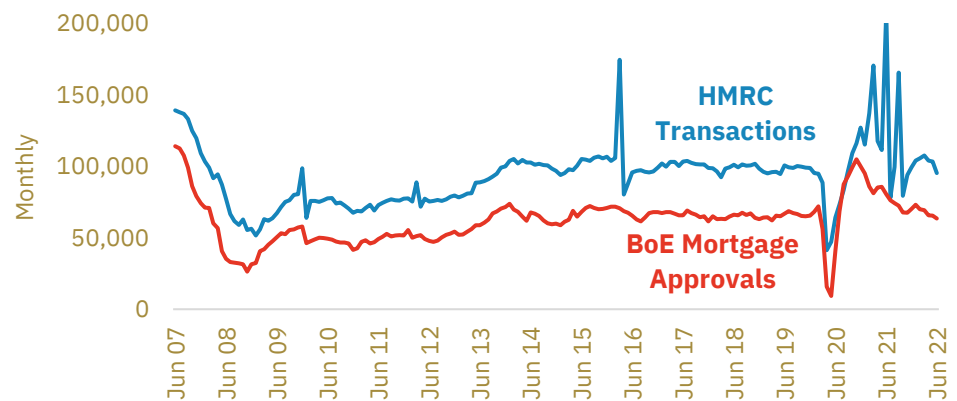
### House Prices - UK

Rightmove reported a 9.3% annual rise in asking house prices in July 2022 while Nationwide reported a 10.7% annual rise in their mortgage approval based index for June. Meanwhile, the ONS reported 12.8% annual growth in its sales agreed index for the year to May 2022.



### Transactions - UK

HMRC provisionally reported 95,400 residential transactions in June. This was 5.4% lower than the same month in 2019. Meanwhile, the Bank of England reported mortgage approvals for house purchase were 4.9% lower in June 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 214,000 completions in 2020/21 while there were 243,200 new build Energy Performance Certificates in the year to Q2 2022 – a leading indicator for net housing supply.

