

# Market Commentary

Residential Analysts

## United Kingdom – July 2023

- **Still Elevated**
- **The Importance of Wealth**

Interest rate expectations are falling as inflation eases but are still elevated compared to back in the spring. We're yet to see what impact these higher rates have had on the housing market in recent months and much will depend on how high they still are in the autumn. However, even under low rates, access to wealth is key for those buying.

### Still Elevated

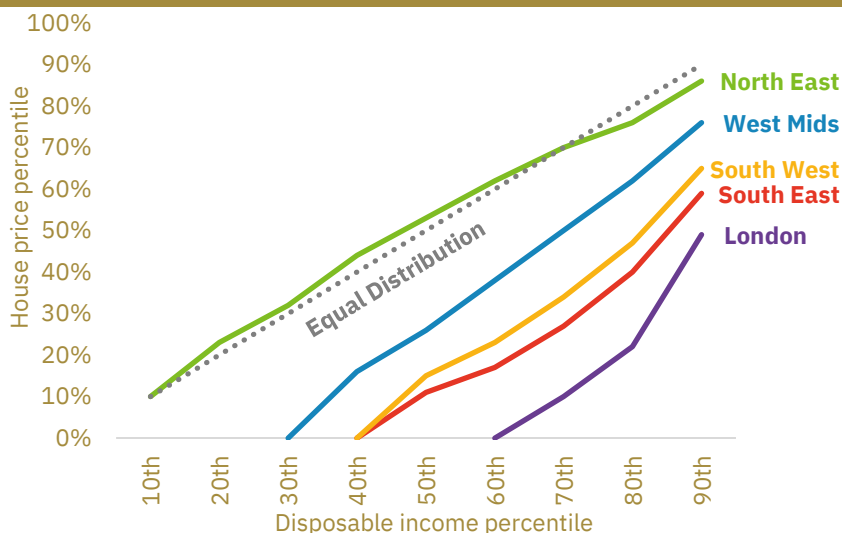
Inflation finally came in lower than expected and financial markets reacted by lowering their expectations for interest rates – at least until the next data release (Fig 1). Mortgage rates have started falling from their recent highs but are likely to remain above where they were just a couple of months ago. We are still waiting to see exactly what impact these higher rates have had on the housing market. There are several data releases next week that should give us some clues and Zoopla today reported an 18% fall in buyer demand ([PDF](#)). Looking ahead, the prospects for the market over the rest of the year will be very dependent on how high mortgage rates are in September, when the summer holidays are over and the autumn selling season starts. There are already reports of growing stock levels and further cuts to asking prices. If mortgage rates are still above 5% by then, we could see bigger price falls in areas more motivated or distressed sellers.

### The Importance Of Wealth

Access to wealth has always played an important role in accessing homeownership but it has become even more important since the financial crisis. The combination of high house prices relative to incomes and the disappearance of higher loan-to-value mortgages has meant borrowers need much larger deposits to buy than in previous periods. New [data](#) from ONS shows just how important wealth is for those looking to buy across different regions of England. The analysis in Fig 2 below shows what percentile of house prices each income percentile can afford to buy based on a house price to disposable income ratio of 5.5. For example, in the North-East, the line broadly tracks a perfect distribution with those on the 50<sup>th</sup> percentile income able to afford to buy the 53<sup>rd</sup> percentile house price. While this approach is not perfect, it does suggest that for many in this region, the issues are economic and the inability to access the right type of good quality housing in the locations it is needed.

### Fig 2: Lorenz Curve For Income & House Prices, 2022

Source: ONS - Assumes a ratio of 5.5 is affordable



### Fig 1: Market Expectations for Base Rate

Source: Bank of England



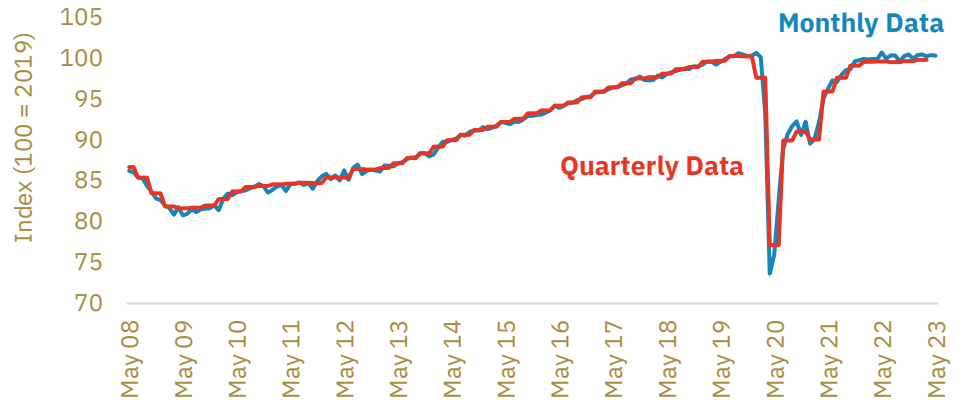
Meanwhile, in the West Midlands the 50<sup>th</sup> percentile income can only afford to buy the 26<sup>th</sup> percentile of the house price, highlighting how high house prices relative to incomes restrict access to homeownership to just those with higher incomes or sufficient wealth to bridge the affordability gap. The situation in London is even more extreme where the 60<sup>th</sup> percentile income is unable to afford even the 10<sup>th</sup> percentile home without massive wealth to make up the gap between borrowing and house prices. Unfortunately, this data is for 2022 and the situation is likely to have worsened since then thanks to higher mortgage rates reducing the size of affordable mortgages and further reinforcing the importance of wealth in buying a home.

# Market Commentary

## Market At A Glance

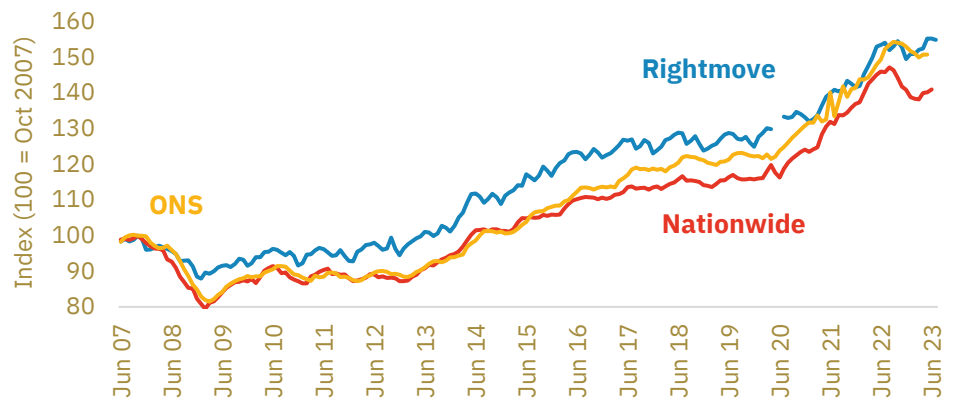
### Economy – UK

The ONS monthly estimates reported GDP was 0.4% lower in May 2023 compared to the same month in 2022. This left monthly GDP 0.3% below the pre-pandemic peak recorded in January 2020. However, this data will inevitably be revised in coming months and years.



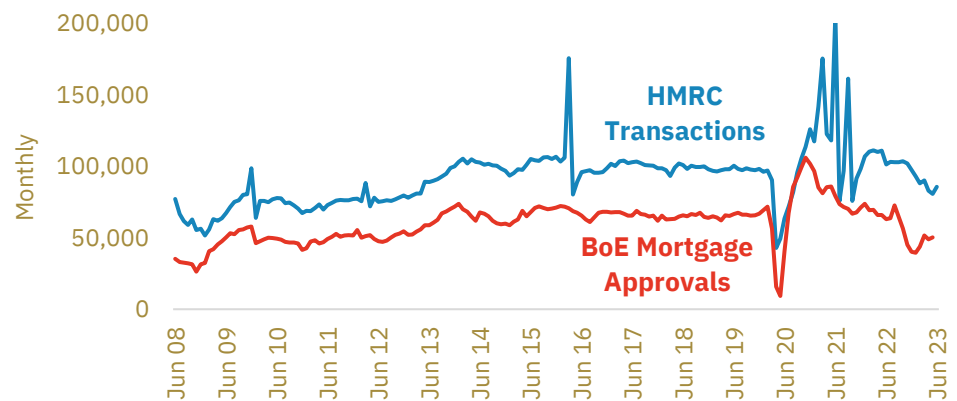
### House Prices – UK

Rightmove reported a 0.5% annual rise in asking house prices in July 2023 while Nationwide reported a 3.5% annual fall in their mortgage approval based index in the same month. Meanwhile, the ONS reported 1.9% annual growth in its sales agreed index for the year to May 2023.



### Transactions – UK

HMRC provisionally reported 85,870 residential transactions in June. This was 14.7% lower than the same month in 2019. Meanwhile, the Bank of England reported mortgage approvals for house purchase were 22.9% lower in May 2023 than the same month in 2019.



### New Supply – England

The latest net additions data for 2021/22 reported 233,000 net new homes in England with 210,000 new build completions. The latest quarterly house-building data suggests there were 218,200 completions in the year to Q1 2023 while there were 239,300 new build Energy Performance Certificates in the year to Q2 2023 – a leading indicator for net housing supply.

