United Kingdom – August 2023

- **Higher Rates, Lower Loan-to-Incomes**
- **New Year Hangover**
- **Regional Remortgage Stress**

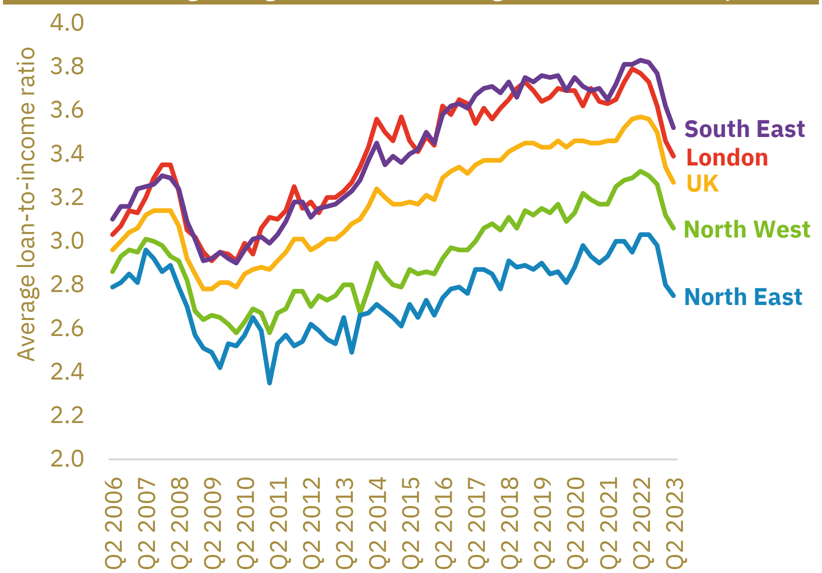
Mortgage rates have fallen from their recent highs but are still elevated compared to back in the spring. These higher rates have already limited how much buyers can borrow and, if rates stay high, loan-to-income ratios could fall further. As a result, it appears cash buyers have been supporting market activity, so far. Meanwhile, data on when fixed rate mortgages are due to end suggests remortgage pain for over 370,000 in the new year.

Higher Rates, Lower LTIs

As the summer draws to an end, the housing market now faces a crucial period. The autumn selling season looks set to get underway in uncertain conditions thanks to high rates, weak buyer demand, growing supply, and gloomy headlines. The recent spike in mortgage rates looks to have eased but they are still higher than back in the spring and higher than this time last year – when it was already getting scary.

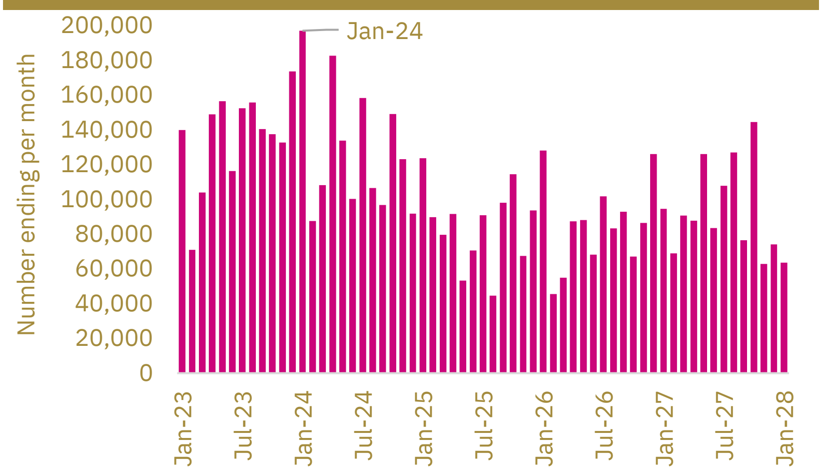
Higher rates are constraining borrowing capacity. Longer mortgage terms and higher repayments have helped offset some of the rise in mortgage rates but there's a limit. As a result, there has been a fall in loan-to-income ratios. As Fig 1 shows, average ratios for first time buyers have fallen in all regions. Across the UK they have fallen 9% and in London the ratio is just 1% higher than its pre-GFC peak in Q1 2008.

Fig 1: First Time Buyer Loan-to-Income Ratios
Source: ONS & Regulated Mortgage Survey
Calculated using average loan and income figures. Note non-zero y-axis.



These lower loan-to-income ratios are limiting demand from all mortgage dependent buyers. UK Finance reports mortgage purchaser activity in Q2 was "down nearly a third compared with the second quarter of 2022" and recent higher rates are likely to have had a bigger impact on Q3 so far. Alongside constrained demand from investors, it appears cash buyers have been the group supporting activity in the market so far this year. Looking ahead, much depends on how high rates stay and for how long. But the sentiment of cash buyers will also be key in the short term. And there are some signs it could fall. For example, the robust sentiment of home-sellers finally turned negative in August with Rightmove reporting a -0.1% annual fall in asking prices. It's not much but the autumn tends to be when bad news hits. Though hopefully this year will be less traumatic than last year's turmoil.

Fig 2: Fixed Rate Mortgages Ending By Month
Source: FCA via GLA – as at end of 2022



New Year Hangover

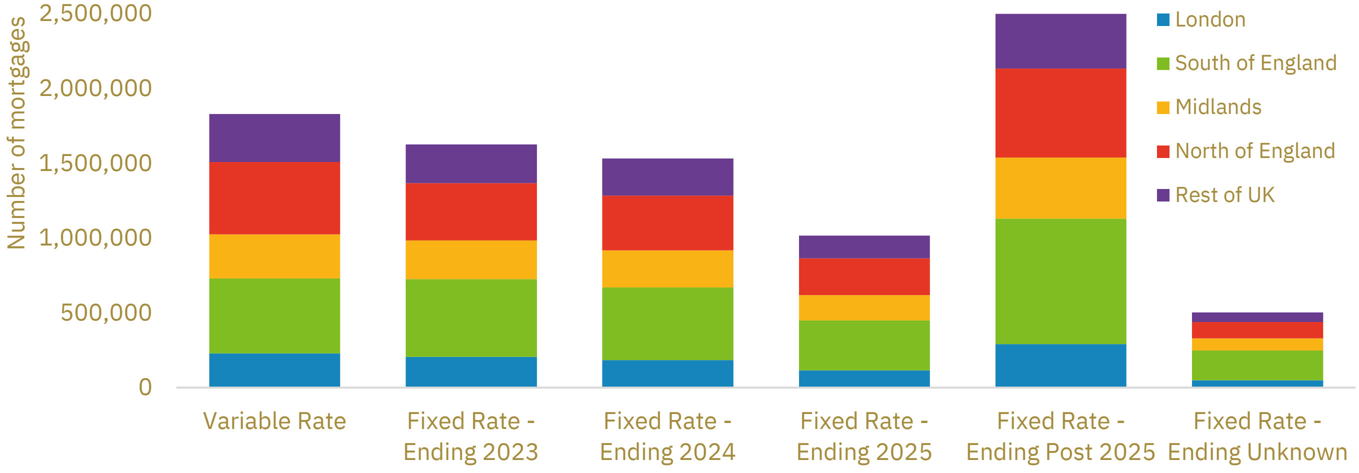
There are an estimated 1.6 million mortgage borrowers reaching the end of their fixed rate period in 2023 but there's been little in the way of detail until now. Thankfully, the GLA have obtained more detailed data from the FCA on the number of outstanding regulated fixed rate mortgages ending by month. This data is presented in Fig 2 opposite and shows that over 1 million fixed rates were due to have ended so far this year (up to August). The data also highlights the spike in number – over 370,000 - expected to end in December 2023/January 2024. That could prove a real headache for households already struggling with the cost-of-living crisis if mortgage rates are still high.

Regional Remortgage Stress

Alongside the monthly data, the FCA release also includes regional and country breakdowns. This data highlights where the fixed rate mortgages ending in 2023 are located and also gives a breakdown of where variable rate mortgages are found. As Fig 3 shows, there were over 1.8 million variable rate mortgages at the end of 2022. 46% of these were Standard Variable Rate and 41% were Tracker. Nearly 500,000 variable rate mortgages were in the south of England (East of England, South East, and South West) and a similar number (480,000) were in the north of England (North East, North West and Yorkshire & Humber). Of the fixed rates due to end in 2023, over 500,000 of the 1.6 million mortgages were in the south of England. The data also highlights the very large number of fixed rates due to end post 2025 – over 2.5 million mortgages. As with most metrics in housing, there is a massive inequality in how affected different borrowers will be by higher mortgage rates. Though this time it reflects your luck in when you bought or re-fixed rather than when you were born or who your parents are.

Fig 3: Mortgages by Rate Type & Year Fixed Rate Ends

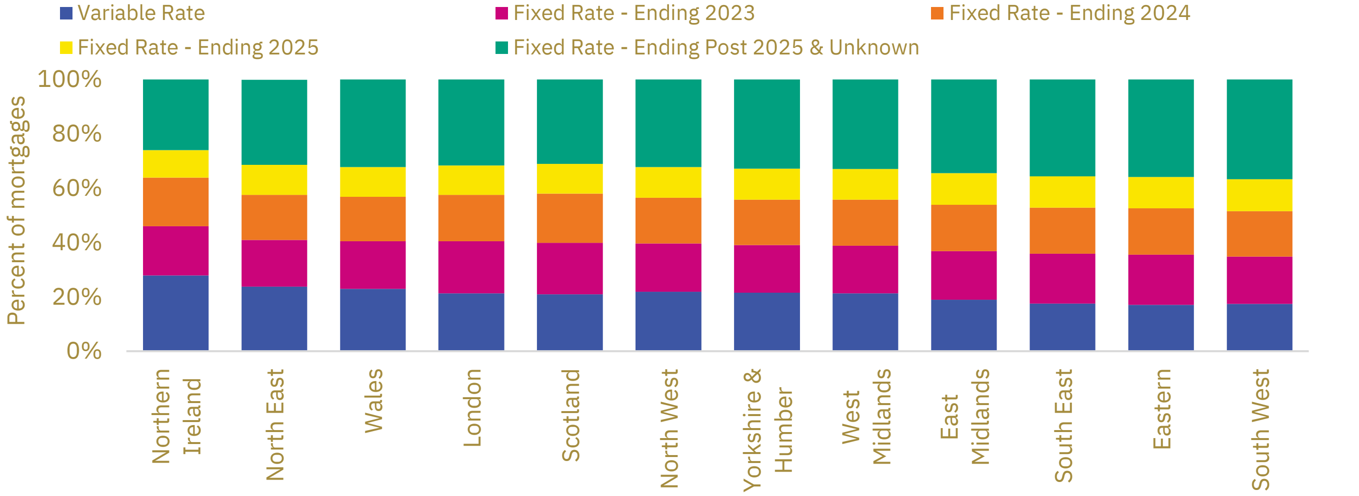
Source: FCA via GLA – as at end of 2022



It's worth noting the above results partly reflect the size of the relative markets. As such, we have also provided a percentage breakdown of the data for each region/country as per Fig 4 below. It appears - when looking at total outstanding mortgages – it is Northern Ireland that is most exposed to higher mortgage rates – around 27.9% of mortgages were on variable rates compared to 20.4% nationally and a further 18.2% had a fixed rate due to end this year. However, the largest share of total outstanding mortgages that are fixed rates ending in 2023 is found in London (19.1%), closely followed by Scotland (18.8%). At the other end of the spectrum, regions that have lower shares of borrowers affected by either variable rates or fixes ending this year are found in the south of England. For example, just 17.4% of outstanding mortgages in the South West were variable rate and a further 17.5% had fixed rates due to end in 2023. Meanwhile, 36.7% of mortgages had fixed rates that are due to end post 2025. It appears there were will lots of borrowers affected by higher mortgage rates in the south of England but larger proportions of outstanding mortgages will be affected in the north of England and rest of the UK.

Fig 4: Distribution of Mortgage Types and End of Fixed Rate Periods by Region/Country

Source: FCA via GLA – as at end of 2022



Market Commentary

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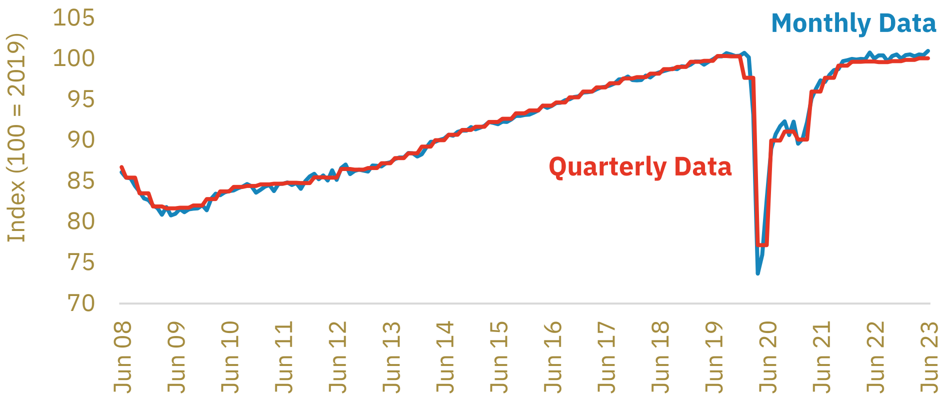
Market At A Glance

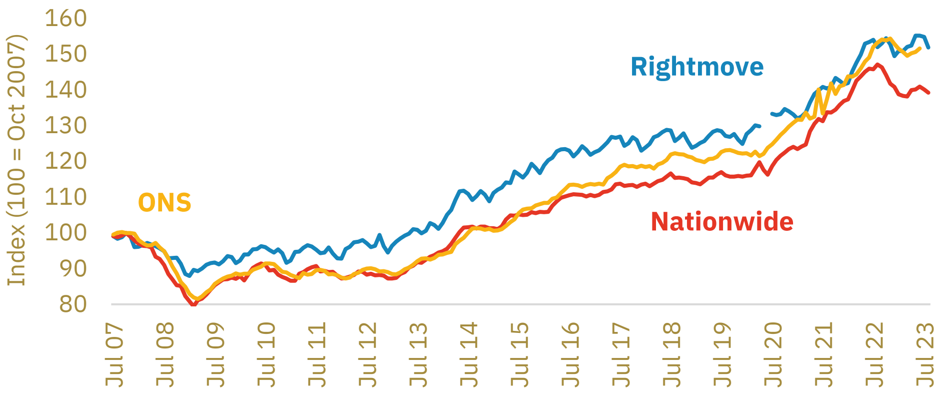
Economy – UK

The ONS estimated monthly GDP was 0.9% higher in June 2023 compared to the same month in 2022. This left monthly GDP 0.3% above the pre-pandemic peak recorded in January 2020. However, this data will inevitably be revised in coming months and years.



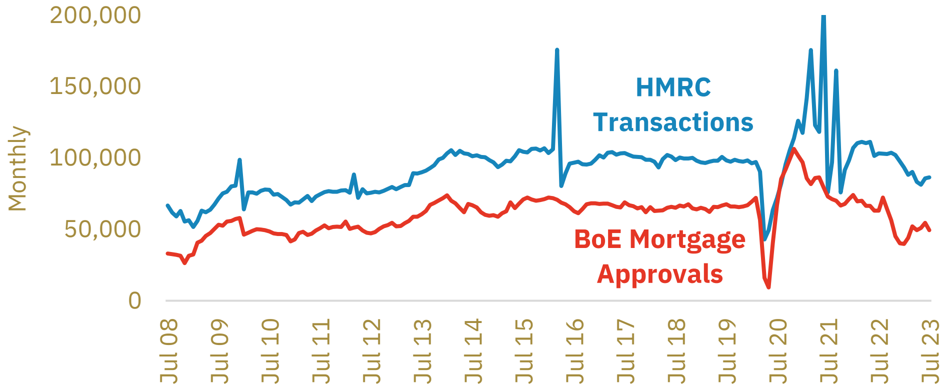
House Prices – UK

Rightmove reported a 0.1% annual fall in asking house prices in August 2023 while Nationwide reported a 5.3% annual fall in their mortgage approval based index over the same period. Meanwhile, the ONS reported 1.7% annual growth in its sales agreed index for the year to June 2023.



Transactions – UK

HMRC provisionally reported 86,510 residential transactions in July. This was 12.0% lower than the same month in 2019. Meanwhile, the Bank of England reported mortgage approvals for house purchase were 27% lower in July 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.