

Market Commentary

Residential Analysts

United Kingdom – November 2023

- **Mind The Gap**
- **New Build Supply**

There have been some intriguing divergences across different measures of housing market activity in 2023 including the high numbers of sales agreed. Meanwhile measures of new housing supply are holding – so far.

Mind The Gap

Understanding why all the different measures of housing market activity have diverged has been one of the key issues for housing market analysts this year. It appears the relatively bigger fall-off in mortgage-based activity compared to overall transactions can be explained by cash buyers (and perhaps mortgage porting though data is limited). However, another intriguing divergence has been the relatively strong sales agreed data reported by the listing portals compared to other measures. This was especially the case back in the spring when they were reporting robust sales agreed figures and suggesting this marked the start of the recovery. But we are yet to see those levels reflected in other measures such as overall market transactions and it hasn't been totally clear why.

Some of the relative strength in the number of sales agreed can be explained by issues that arise when comparing to 2019 but data from [IMLA](#) also offers some clues. Their [survey](#) (PDF) of mortgage intermediaries' business volumes and conversion rates from Decision in Principle (DIP) through to completion suggests that challenges in getting accepted for a mortgage and getting sales to completion could explain the difference. As Fig 1 shows, analysis of the IMLA data shows the number of initial DIPs and DIP accepts have been relatively robust compared to 2019, especially in March and April. This is likely the point in the house buying process when offers have been made and accepted. Unfortunately, tracking the IMLA activity levels through the mortgage process shows an increasing fall-through in activity. It appears prospective buyers have been passing the first hurdle with a DIP and making offers, but then struggling to pass the more difficult parts of the process and actual buy the home they offered on.

New Build Supply

Perhaps the clearest sign of the housing downturn can be found in the stock market updates of the listed housebuilders. Sales rates have collapsed as demand has dwindled thanks to the combination of higher mortgage rates and the end of Help to Buy equity loan. But it's not just the listed housebuilders that are struggling, the prospects for overall new supply levels are poor and there's the inevitable risk of long-term damage to delivery.

Fig 2: New Build Completions

Source: DLUHC

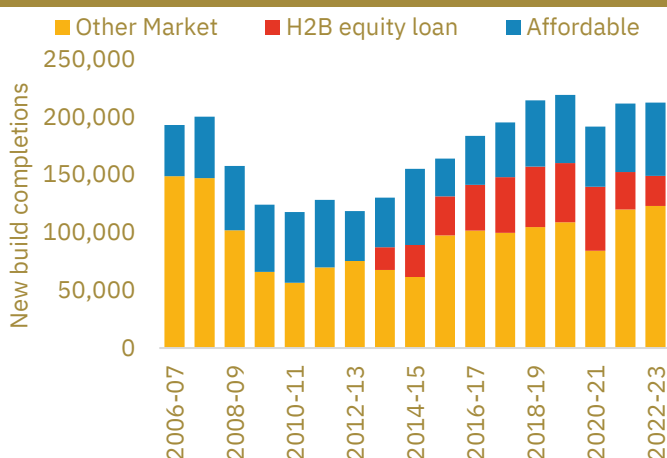
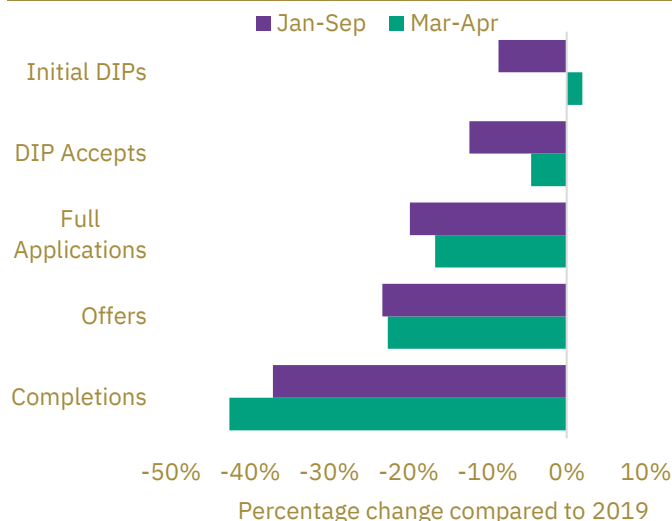


Fig 1: Intermediary Mortgage Activity

Source: IMLA Mortgage Market Tracker, BVA Bdrc



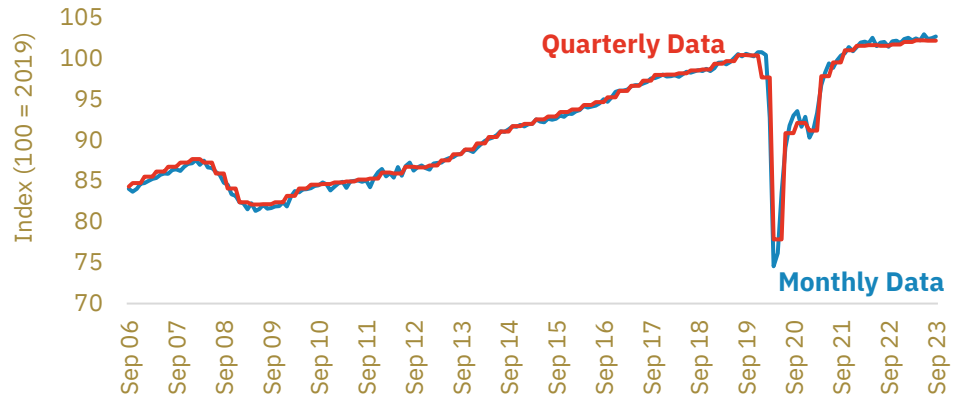
Despite the challenges, the delivery of new homes has been holding up so far. This week, the 2022-23 [Net Additions](#) and [Affordable](#) housing data for England was released – the most comprehensive measures of new supply. The data shows both net additions (234,400 homes) and new build completions (212,570 homes) were similar to the previous year. Since then, the leading indicators of both EPCs and council tax records suggest delivery is holding up at around 230,000 homes per year. However, with lower sales rates for the volume housebuilders and a more challenging investment market for higher density developments, there is the growing risk of unsold new build homes lingering on the market if falling interest rates don't quickly translate into much higher buyer demand. Understanding the scale of this and where it is happening will be essential to assessing the prospects for local markets next year.

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Market At A Glance

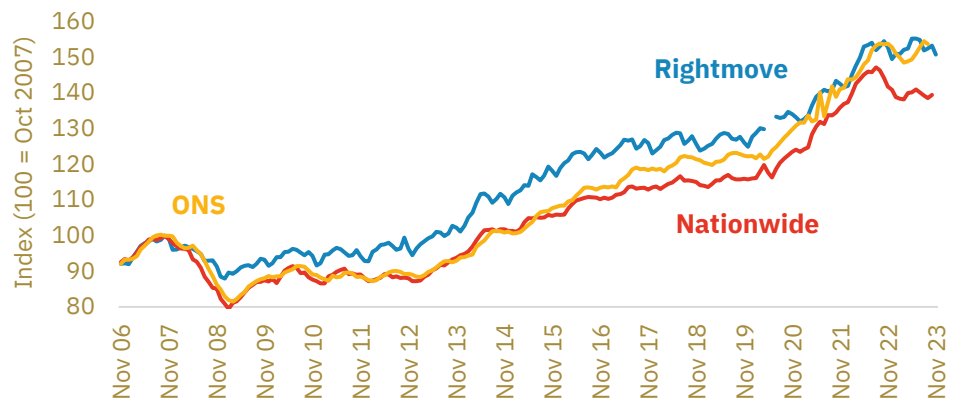
Economy – UK

The ONS estimated monthly GDP increased 1.3% in the year to September 2023. Thanks to recent revisions, monthly GDP was 1.9% above the pre-pandemic peak recorded in January 2020. However, this monthly data will continue to be revised in the future.



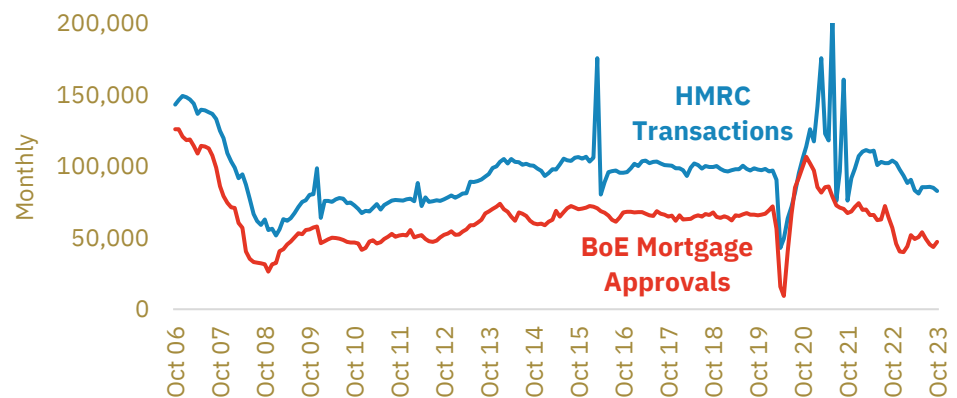
House Prices – UK

Rightmove reported a 1.3% annual fall in asking house prices in November 2023 while Nationwide reported a 3.3% annual fall in their mortgage approval based index in the year to October. Meanwhile, the ONS reported 0.1% annual fall in its sales agreed index for the year to September 2023.



Transactions – UK

HMRC provisionally reported 82,910 residential transactions in October. This was 15% lower than the same month in 2019. Meanwhile, the Bank of England reported mortgage approvals for house purchase were 28% lower in October 2023 than the same month in 2019.



New Supply – England

The latest net additions data for 2022/23 reported 234,400 net new homes in England with 212,600 new build completions. The latest quarterly house-building data suggests there were 205,900 completions in the year to Q2 2023 while there were 237,000 new build Energy Performance Certificates in the year to Q3 2023 – a leading indicator for net housing supply.

