

Market Commentary

Residential Analysts

United Kingdom – February 2024

- **At What Price?**
- **Rebuilding The Model**

Most housing market metrics were looking more positive in February – at least for those in the market. However, rates are rising again and activity is still low. Meanwhile, the housebuilding model needs fundamental reform.

At What Price?

The upbeat news for the housing market mostly continued in February. Some of the timelier house prices indices are now reporting annual growth, which is positive for owners but less so for others. Measures of activity levels also continue to recover - though some of the highest percentage growth figures may be over-stating the scale of the recovery due to comparison with a very weak period last year. Despite the upbeat news, expectations for the Bank of England base rate have continued to tick slowly upwards and interest rates have followed (Fig 1).

The widespread news reports of falling mortgage rates at the beginning of the year, with an increasing number of deals available below 4%, have disappeared as interest rates have crept back up. As discussed last month, the prospects for this year are heavily dependent on where rates end up and any resulting economic fallout. While the country may have been in a technical recession at the end of last year, the broader picture appears to be one of stagnation. This economic backdrop, along with stretched affordability, will continue to drag down on activity in the housing market. The property industry is now waking up to the realisation that, while low turnover may be the less immediately painful adjustment to higher mortgage rates, it can end up being more painful for them over the medium term than the short sharp 10% to 15% nominal price correction we could've had instead.

Fig 1: Financial Market Expectations for Base Rate

Source: Bank of England

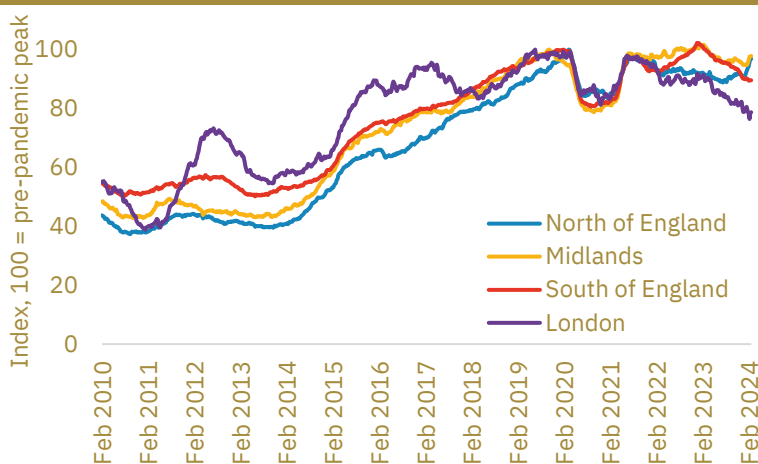


Rebuilding The Model

There has been a lot of attention on the housebuilding market in recent weeks, partly thanks to the [publication](#) of the final Competition & Markets Authority report. It had something for everyone, with a further investigation into information sharing, but the housebuilders will be pleased they can blame government and the planning system.

Fig 2: Annual Housing Supply by Broad Region

Source: DLUHC Weekly New Build Energy Performance Certificates



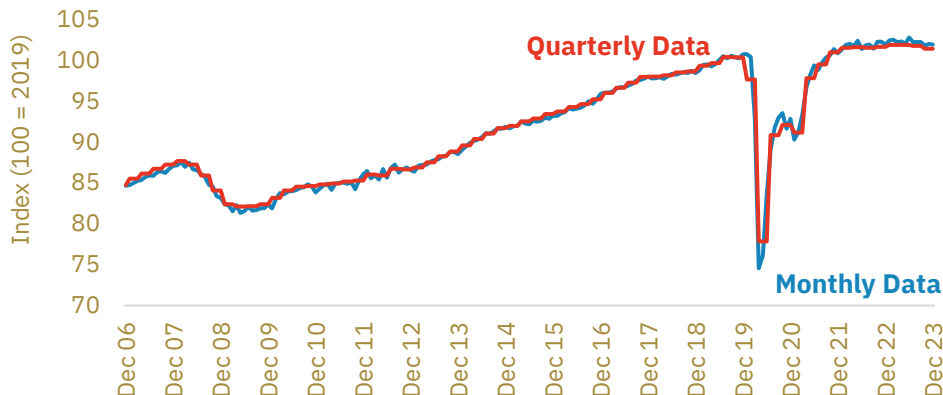
However, the report also makes it clear that more fundamental interventions may be required to deliver the number of homes that policy makers desire. This is due to the current reliance on the speculative private development model to deliver new homes. This model is “heavily influenced by external factors” such as interest rates. While the number of new homes being completed has not yet fallen significantly (Fig 2, except for London), the prospects are not looking great earlier in the pipeline, with permissions, starts, and sales rates all suffering over the last two years. The CMA recommend increasing non-speculative housebuilding and measures to increase the build-out rate – such as land market reform. Now would be a good time to do it.

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Market At A Glance

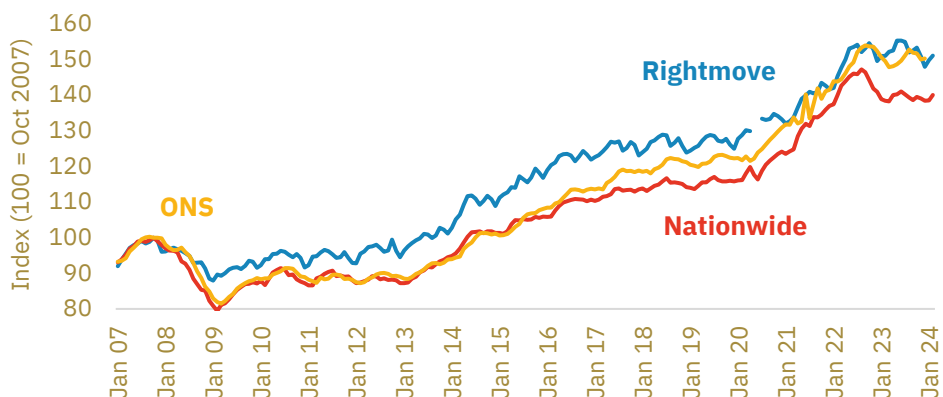
Economy – UK

The ONS estimated monthly GDP was unchanged in the year to December 2023. Thanks to recent revisions, monthly GDP was 1.2% above the pre-pandemic peak recorded in January 2020. However, this monthly data will continue to be revised in the future.



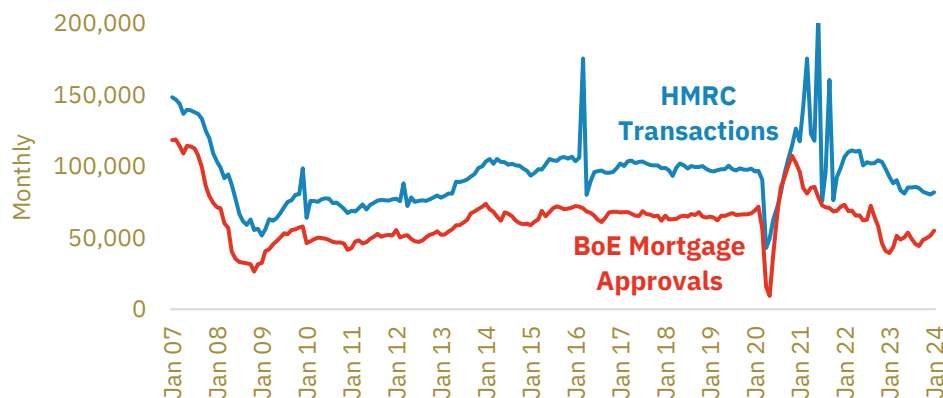
House Prices – UK

Rightmove reported a 0.1% annual rise in asking house prices in February 2024 while Nationwide reported a 1.2% annual rise in their mortgage approval-based index over the same period. Meanwhile, the ONS reported a 1.4% annual fall in its sales agreed index for the year to December 2023.



Transactions – UK

HMRC provisionally reported 82,000 residential transactions in January. This was 15% lower than the same month in 2019. Meanwhile, the Bank of England reported mortgage approvals for house purchase were 15% lower in January 2024 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 202,700 completions in the year to Q3 2023 while there were 231,100 new build Energy Performance Certificates in the year to Q4 2023 – a leading indicator for net housing supply.

