Market Commentary

Residential Analysts

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United Kingdom – March 2024

- **Levelling Down**
- **The North's Relative Resilience**

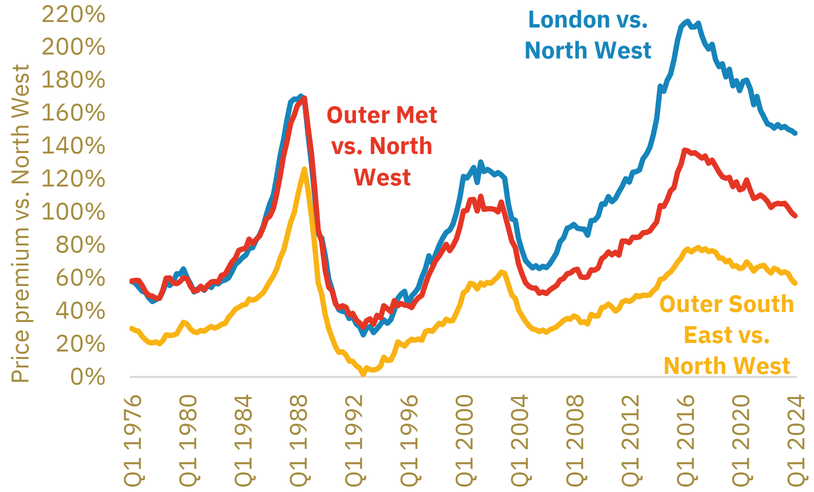
There are signs of recovery but still some questions about how sustainable it is. What is increasingly clear is the regional impact of higher rates with house prices and turnover falling more in the South than the North of England.

Levelling Down

The housing market is in a slightly strange place right now. There are undoubtedly signs of recovery with prices levelling off and activity rising. However, despite falling from their autumn peak, mortgage rates are still high. It is not clear if the improvement in activity will be sustained or simply reflects pent-up demand from the estimated 200,000 transactions that have not completed over the last 15 months. Current rates don't look great if you've just checked them for the first time in two years but could look quite appealing if you've been desperate to buy for the last twelve months. It is also possible that some of this recent recovery simply reflects the short period of sub 4% mortgage rates seen back in January and February. Meanwhile comparing data to last year inevitably makes it look better while comparisons to 2019 also appear positive - but we do have some concerns over the pre-pandemic sales agreed data reported by listings companies and whether it is truly comparable.

What is increasingly clear is the regional variation in the impact of higher mortgage rates. So far, it seems to be in accordance with our prior expectations. For example, while the Nationwide index is reporting national house prices have returned to positive annual price rises, they also report prices are still falling in the south of England. As a result, the premium for prices in London and the south of England has continued to narrow relative to the North West (Fig 1). High mortgage rates were always going to affect the most unaffordable parts of the country the worst, as mortgage dependent borrowers were more likely to need higher loan-to-income ratios in these markets and they have become too expensive for most borrowers thanks to high mortgage rates.

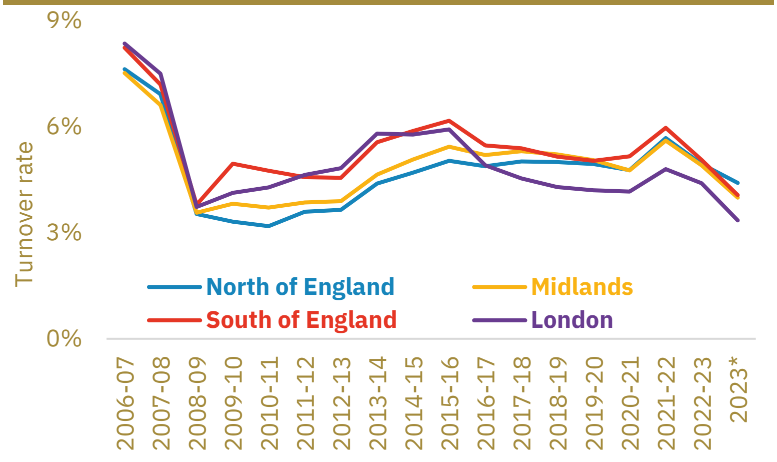
Fig 1: Regional House Price Premium
Source: Nationwide (note uses old region definitions)



The North's Relative Resilience

We have consistently highlighted the need to consider both house prices and turnover together during periods of adjustment, and this time has been no exception. The effect of higher mortgage rates has mostly been seen in transactions rather than prices but, again there are some regional variations in the scale of the impact.

Fig 2: Transactions As Percent Of Private Stock
Source: DLUHC, HMLR, HMRC (estimate for calendar year)*



As Fig 2 shows, turnover rates fell during the financial crisis and have been permanently lower. However, the partial recovery was quickest in London and the South of England during the early part of the 2010s. But, with reforms to stamp duty in 2016, activity in London fell and has remained consistently lower than other regions. However, turnover in the Midlands and North recovered to a similar rate as the South of England in the years leading up to the pandemic with all regions experiencing a post-pandemic boom. But the impact of higher rates has led to a bigger fall in turnover in the South of England while the North of England has been slightly more resilient, though still down on previous levels. This regional variation is likely to continue while mortgage rates remain high.

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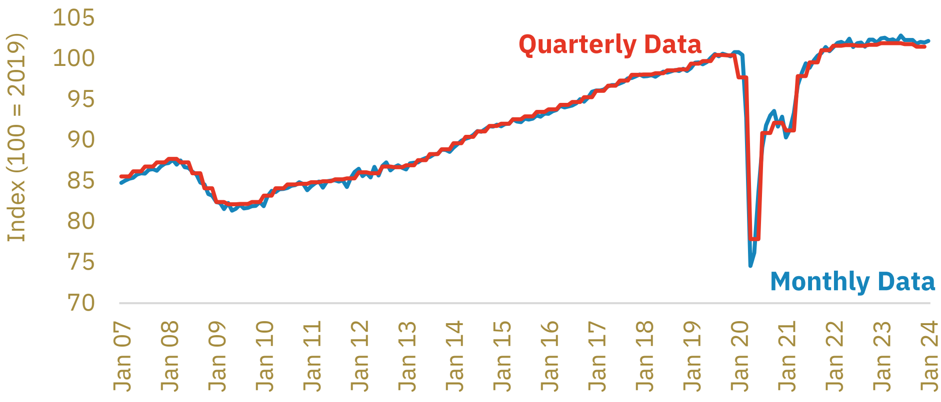
Market At A Glance

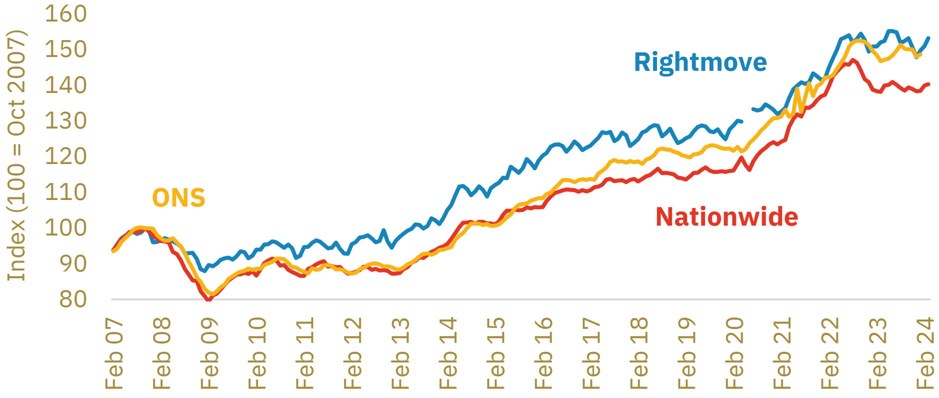
Economy – UK

The ONS estimated monthly GDP fell 0.3% in the year to January 2024. Thanks to recent revisions, monthly GDP was 1.4% above the pre-pandemic peak recorded in January 2020. However, this monthly data will continue to be revised in the future.



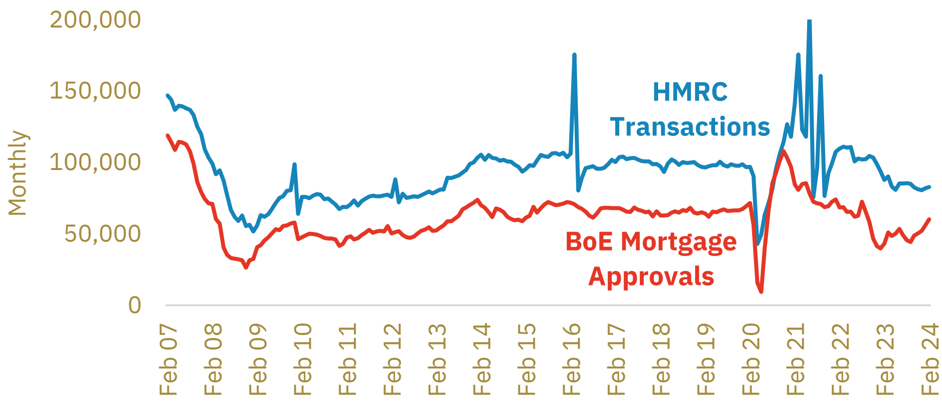
House Prices – UK

Rightmove reported a 0.8% annual rise in asking house prices in March 2024 while Nationwide reported a 1.6% annual rise in their mortgage approval-based index over the same period. Meanwhile, the ONS reported a 0.6% annual fall in its sales agreed index for the year to January 2024.



Transactions – UK

HMRC provisionally reported 83,000 residential transactions in February. This was 14% lower than the same month in 2019. Meanwhile, the Bank of England reported mortgage approvals for house purchase were just 6% lower in February 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 192,800 completions in the year to Q4 2023 while there were 231,100 new build Energy Performance Certificates over the same period – a leading indicator for net housing supply.