

SOARING MORTGAGE RATES WILL DRAIN THE BUYER POOL... ...AND PUSH HOUSE PRICES DOWN BY ABOUT 5% NEXT YEAR

U.K. HOUSING CHARTBOOK, SEPTEMBER 2022

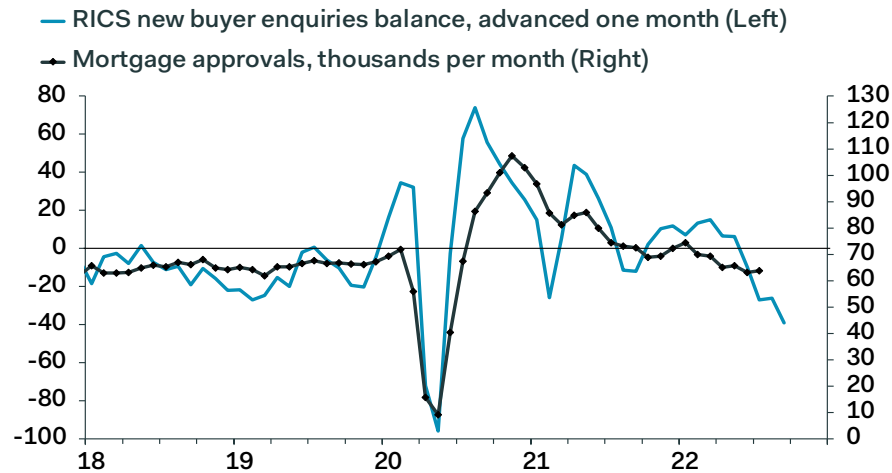
DATA AS AT SEPTEMBER 27
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Summary

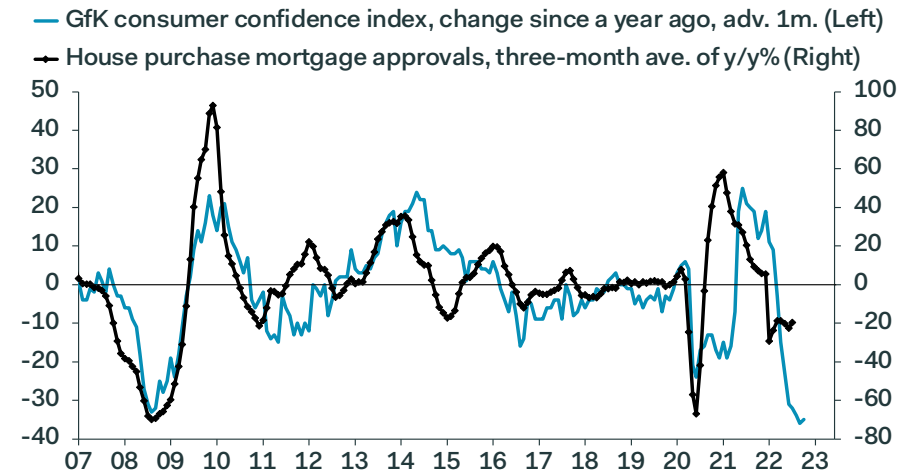
- **Housing demand:** New buyer enquiries fell in August at the fastest pace since May 2020, according to the RICS Residential Market Survey. They will continue to fall quickly this autumn, given the record low level of consumers' confidence and the outlook for a very sharp increase in quoted mortgage rates.
- **Housing supply and transactions:** Very few properties are on the market; new instructions fell quickly in August and the stock of homes on estate agents' books has declined to a record low. The lack of supply means sales are still being agreed quickly, though completion times have jumped recently.
- **House prices:** Don't be fooled by the continued momentum in the official measure of house prices in July. It takes time for changes in new mortgage rates to filter through to transaction prices. Surveyors were beginning to brace for falling house prices in August, even before it became likely that mortgage rates would surge further.
- **Mortgage rates:** The average quoted rate for a two-year fixed-rate mortgage, with a 75% LTV ratio, has almost tripled this year to 3.64% in August, from 1.34%. It will rise to at least 6.0% by the end of the year, if markets are right about the path for Bank Rate, and possibly further, if lenders start to price-in a growing risk of borrower distress and default. We think, however, that the MPC will be less aggressive than investors' expect, and expect Bank Rate to peak at 4% early next year, rather than 6%.
- **Affordability:** The proportion of the average new buyer's disposable income absorbed by monthly mortgage payments is about to soar to 32% early next year, from 22% at the start of 2022, if investors are right about the path for risk-free rates. Few potential buyers will commit to such a burdensome stream of future payments; many others will fail lenders' affordability tests. And while the increase in the threshold for Stamp Duty Land Tax will save the average buyer £2.5K, the tax was never a major impediment to a house purchase, as most borrowers rolled the cost into their loans. Far more people report that a deposit is the main barrier to buying a home; required deposits likely will rise again as banks become less willing to lend at high LTV ratios, given the rising risk of a house price downturn and a sharp increase in unemployment.
- **Mortgage refinancing:** The average homeowner refinancing a mortgage this winter will see a near-400bp jump in their interest rate, if markets are right about the outlook for Bank Rate. Unfortunately, the number of refinancers also will rise over the coming quarters, due to the high levels of housing market activity two years ago and the trend in 2017 and 2018 for households to fix for five years, rather than two.
- **Signs of stress:** The proportion of households with a cost-of-living-adjusted debt servicing ratio that exceeds 70% currently is 1pp below its 2007 peak, but it will soar over the coming quarters. Even in Q2, a very large majority of lenders expected default rates to rise.
- **Housebuilding:** Housing starts rose in Q2 to their highest level since Q3 1988. But more recently, new housing work has begun to drop, as housebuilders have become less confident in the outlook due to the surge in mortgage rates. In addition, rapid increases in construction costs are prompting some proposed projects to be postponed, and have contributed to the sharp decline in the equity prices of housebuilders.
- **Investment:** Buy-to-let landlords have benefited from rapid capital appreciation and strong growth in new rents over the last year. But the jump in mortgage rates suggests that profitability will decline when many landlords refinance their loans.
- **Regional picture:** Year-over-year growth in house prices exceeded 10% in a majority of regions in July. London's market has continued to lag behind to date and it likely will underperform, due to above-average leverage levels. That said, high-end home prices in the capital potentially will benefit from both from the cut to the additional rate of income tax and sterling's depreciation, which might attract overseas buyers.
- **Forecast table:** We expect house prices to fall by about 5% over the next 12 months, assuming the MPC increases Bank Rate to 4% by February. We wouldn't rule out a bigger fall, but expect the supply of homes coming on the market to continue to decline quickly, underpinning prices.



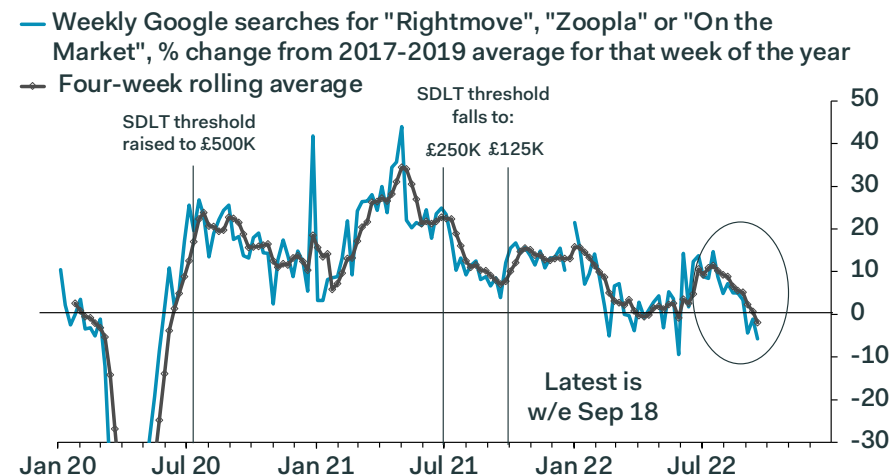
1. FALLING NEW BUYER ENQUIRIES BODE ILL FOR MORTGAGE APPROVALS



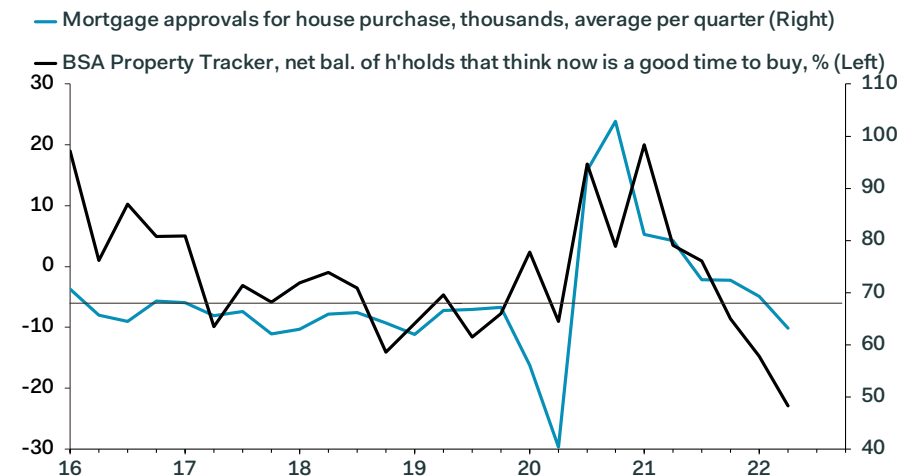
3. CONFIDENCE USUALLY IS A GOOD GUIDE TO HOUSE PURCHASE DEMAND



2. FEWER PEOPLE THAN USUAL ARE SEARCHING FOR PROPERTIES ONLINE

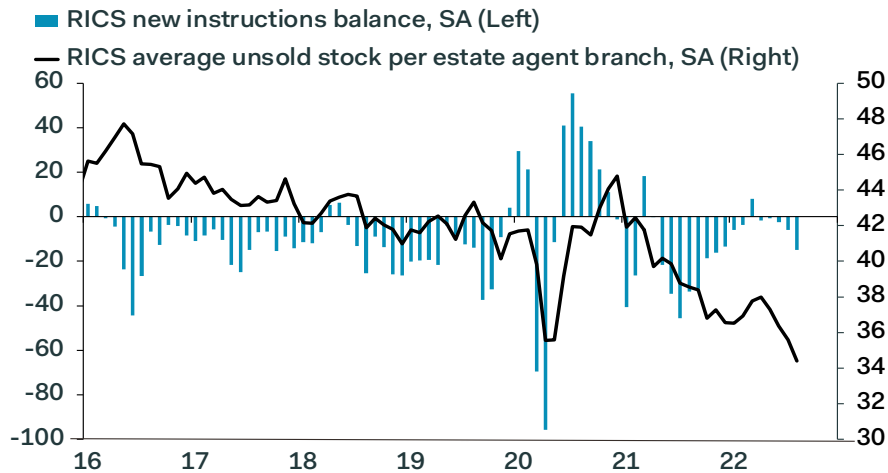


4. FEW HOUSEHOLDS THINK NOW IS A GOOD TIME TO BUY A HOME

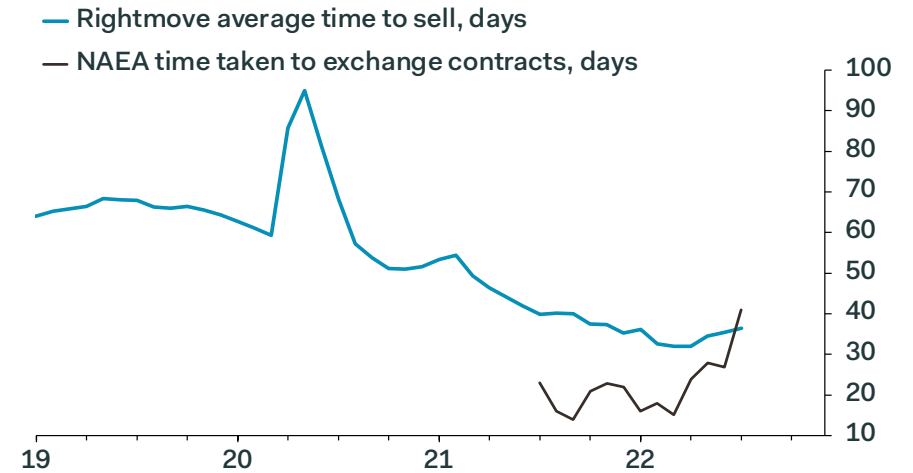




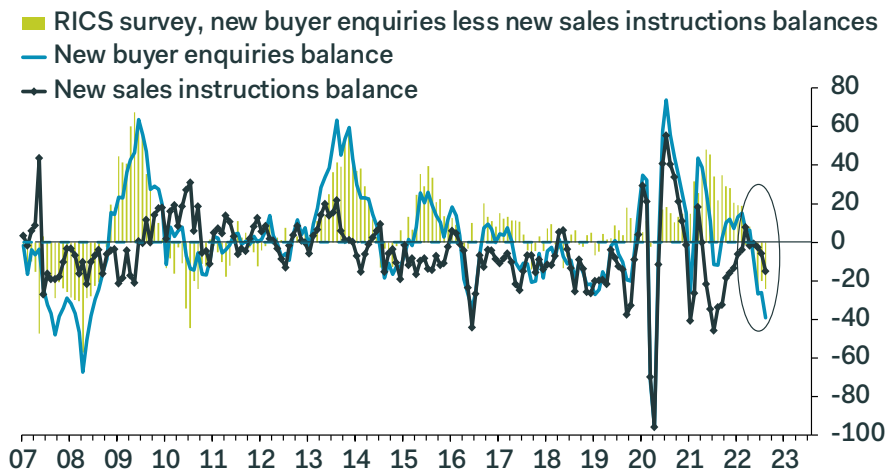
5. THE SUPPLY OF HOMES COMING TO MARKET IS FALLING...



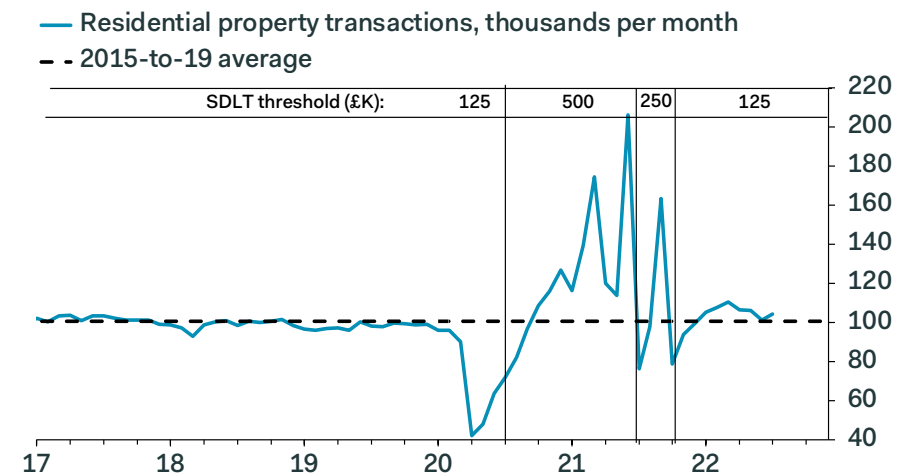
7. SALES ARE BEING AGREED QUICKLY, BUT ARE TAKING LONGER TO COMPLETE



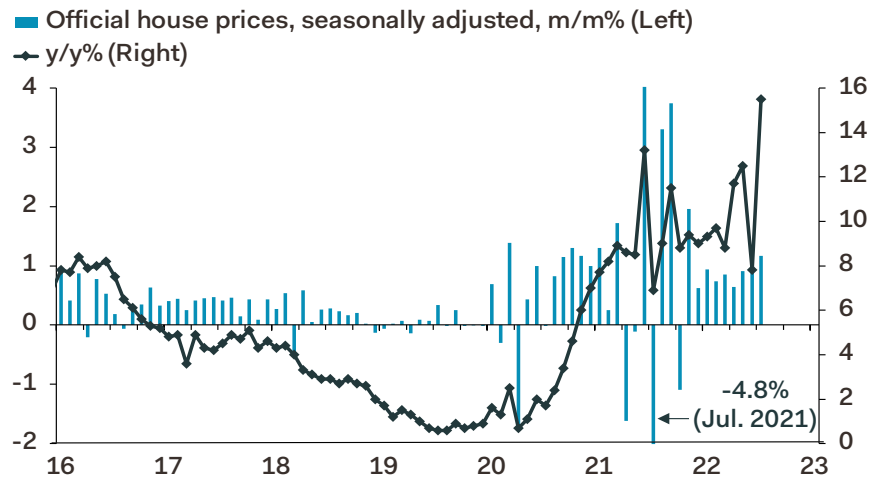
6. ...BUT DEMAND IS FALLING AT A FASTER RATE THAN SUPPLY



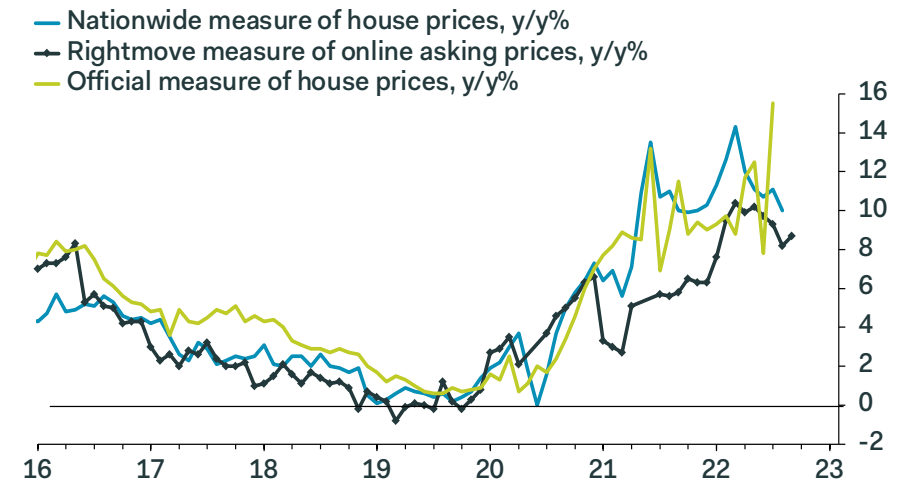
8. TRANSACTIONS ARE BEGINNING TO FALL, AS SUPPLY DROPS



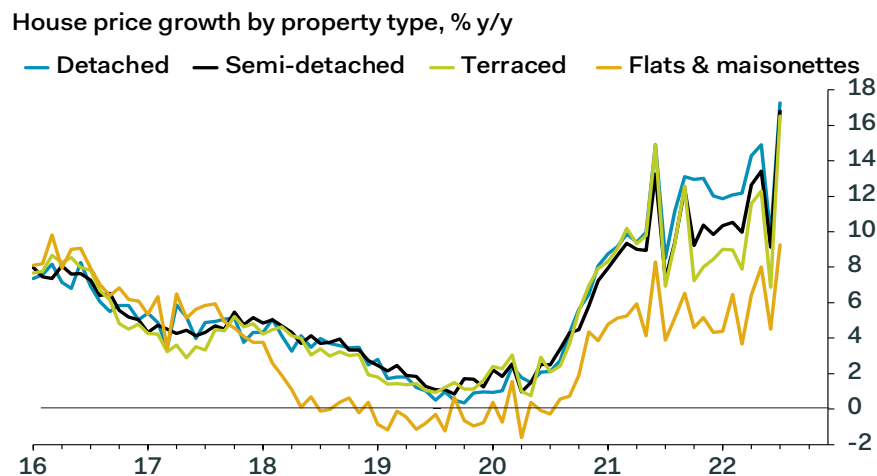
9. JULY'S RAPID HOUSE PRICE GROWTH WASN'T JUST DUE TO BASE EFFECTS



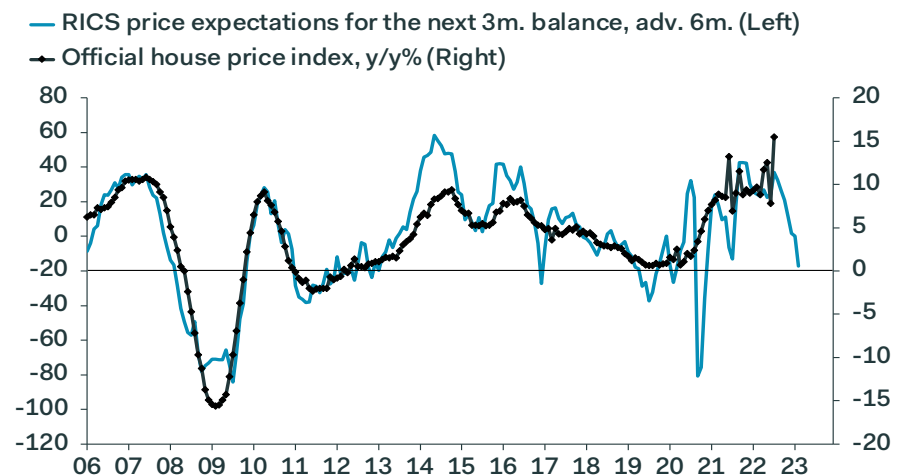
11. TIMELIER MEASURES OF PRICES HAVE REMAINED STRONG SO FAR...



10. PRICES FOR DETACHED PROPERTY HAVE CONTINUED TO OUTPACE FLATS

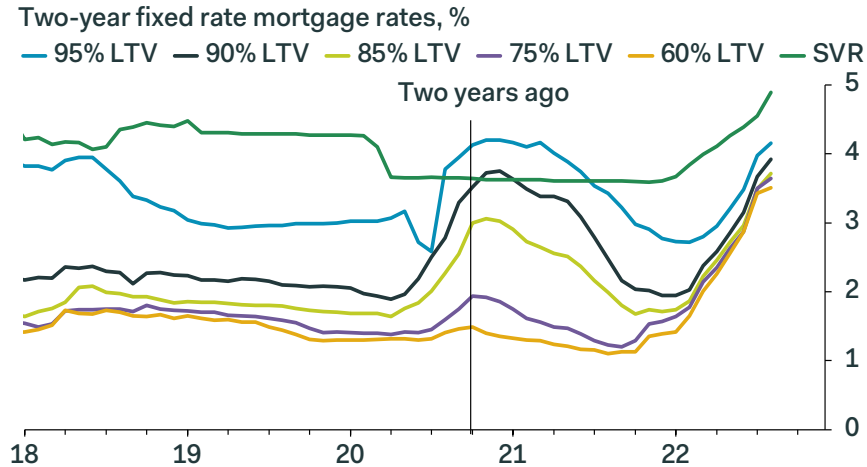


12. ...BUT SURVEYORS EXPECT PRICE GROWTH TO SLOW SHARPLY BY YEAR END

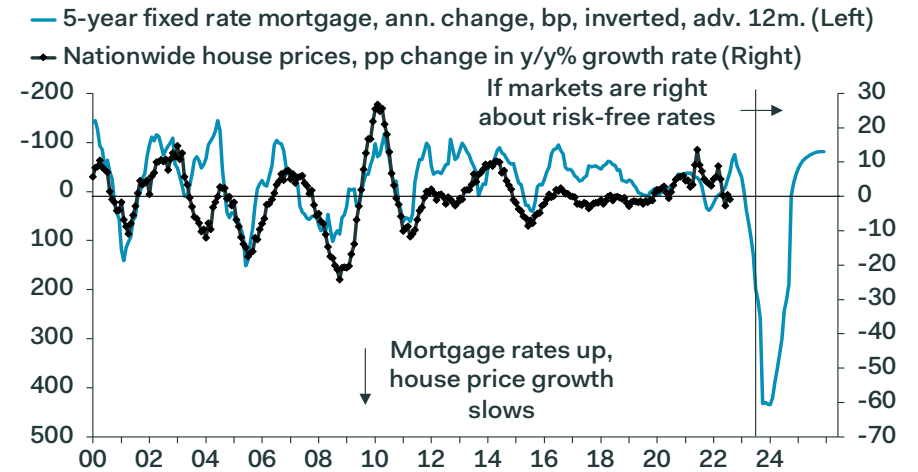




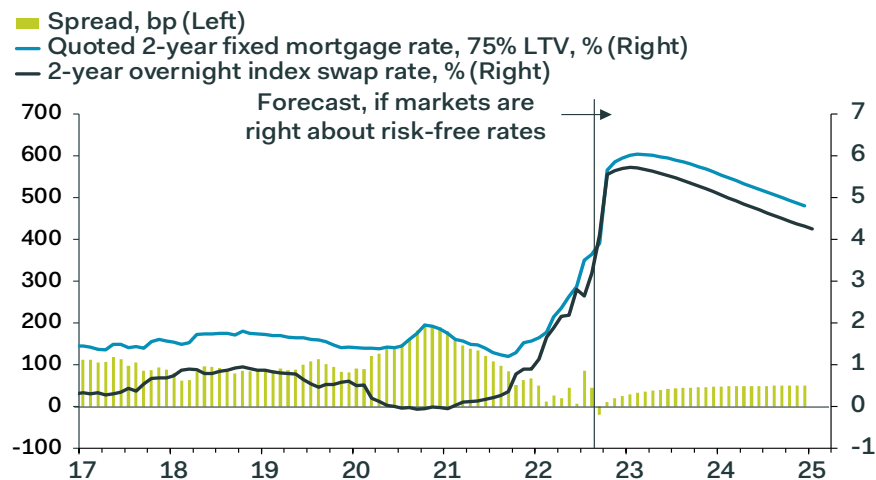
13. THE JUMP IN MORTGAGE RATES THIS YEAR HAS BEEN STAGGERING



15. HIGHER MORTGAGE RATES WILL SLOW HOUSE PRICE GROWTH GREATLY



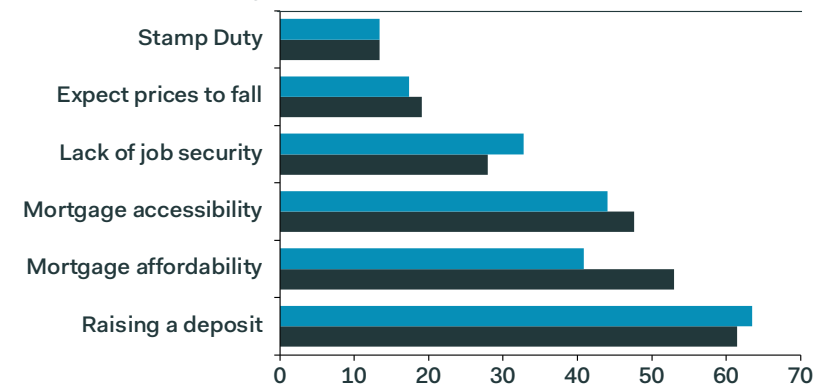
14. THE RISE IN RISK-FREE RATES IMPLIES THEY WILL CLIMB MUCH FURTHER



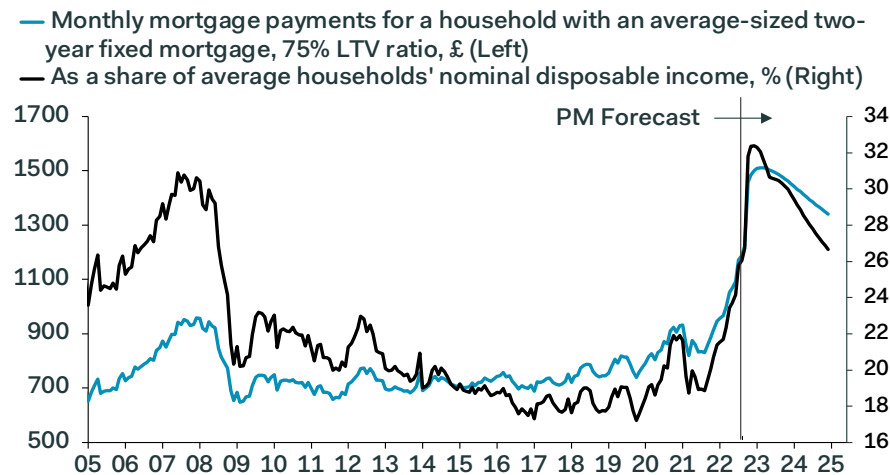
16. MORTGAGE AFFORDABILITY NOW IS A BIG BARRIER TO HOME-OWNERSHIP

BSA Property Tracker, factors most likely to stop survey participants purchasing a residential property, %

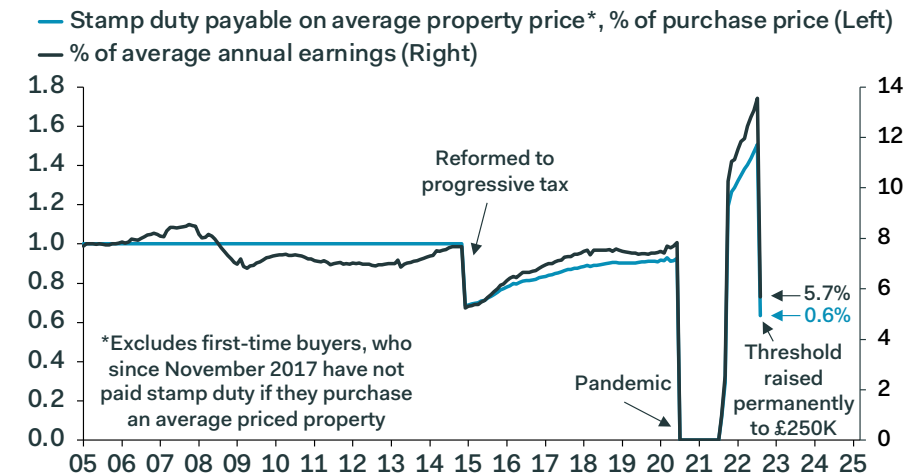
■ 2015-to-2019 average ■ Q2 2022



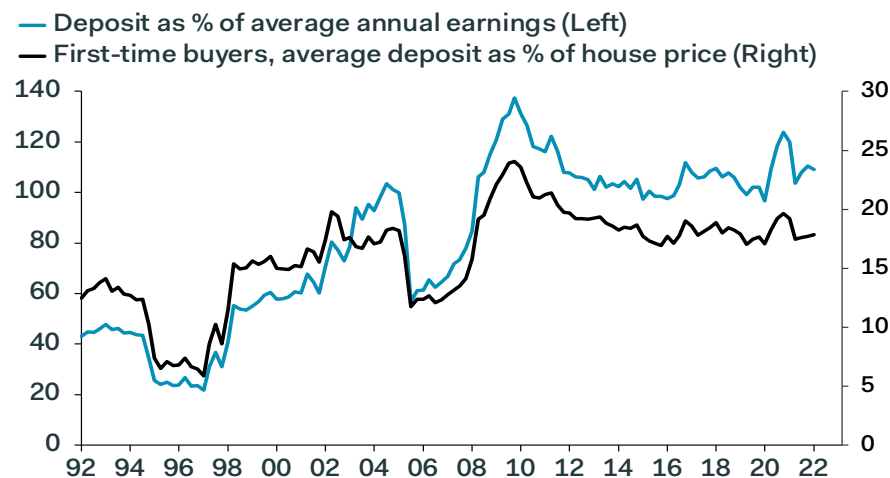
17. BUYERS MUST DEVOTE A HUGE SHARE OF INCOMES TO MORTGAGE PAYMENTS



19. THE STAMP DUTY CUT IS A SMALL HELP, NOT A GAME-CHANGER FOR BUYERS



18. RAISING A DEPOSIT REMAINS A MAJOR BARRIER FOR POTENTIAL BUYERS TOO

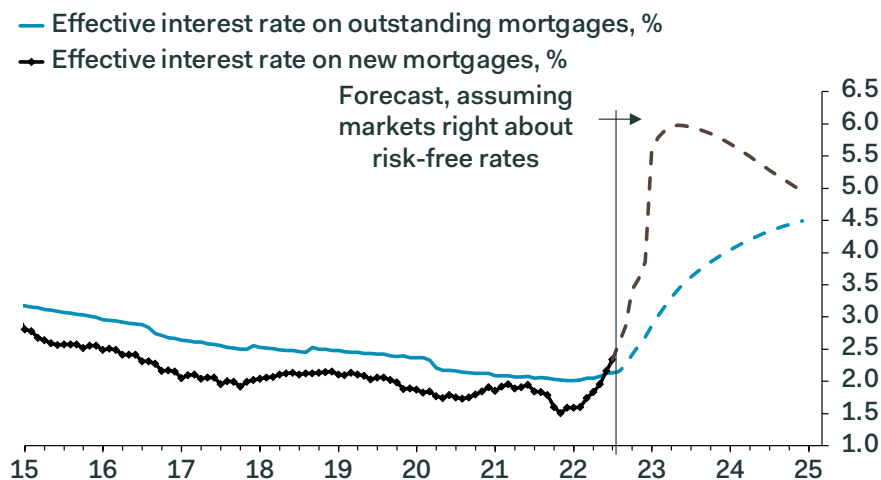


20. PRICES LOOK OVEREXTENDED IN RELATION TO DISPOSABLE INCOMES

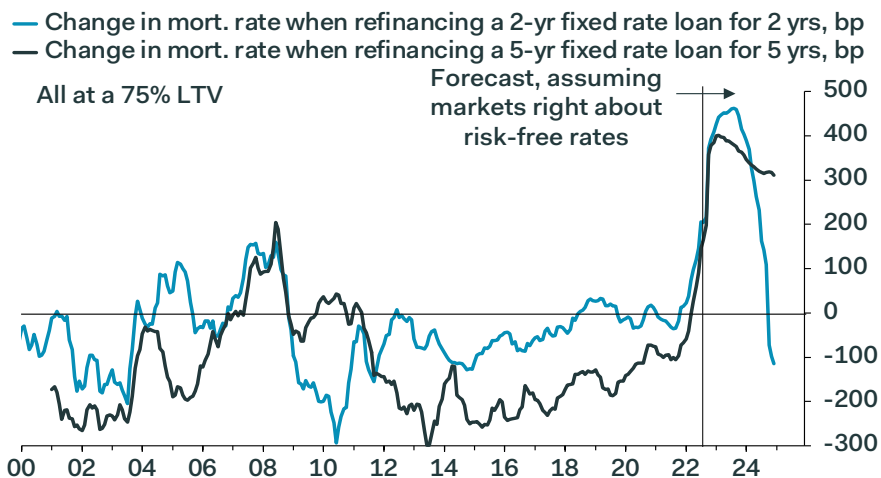




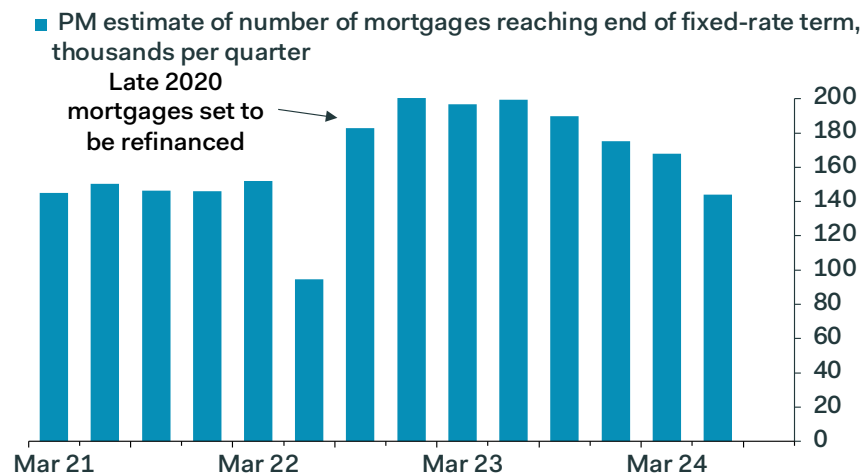
21. THE EFFECTIVE MORTGAGE RATE WILL RISE SHARPLY SOON



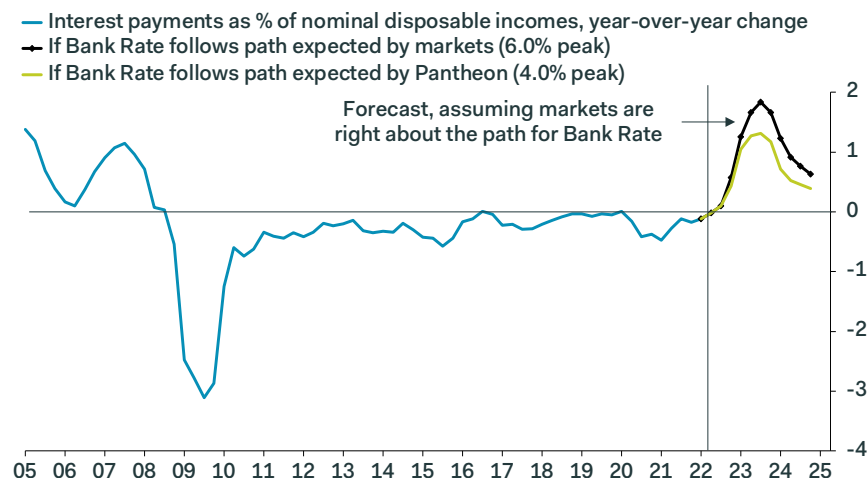
22. MOST REFINANCERS' MORTGAGE RATE WILL JUMP BY ABOUT 400BP



23. THE NUMBER OF LOANS DUE TO BE REFINANCED IS SET TO RISE

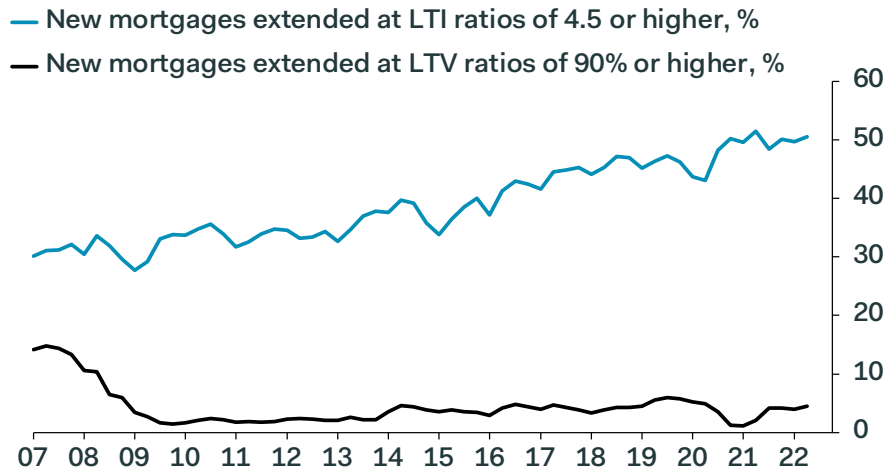


24. EXPECT AT LEAST A 1PP HIT TO OVERALL DISPOSABLE INCOMES IN 2023

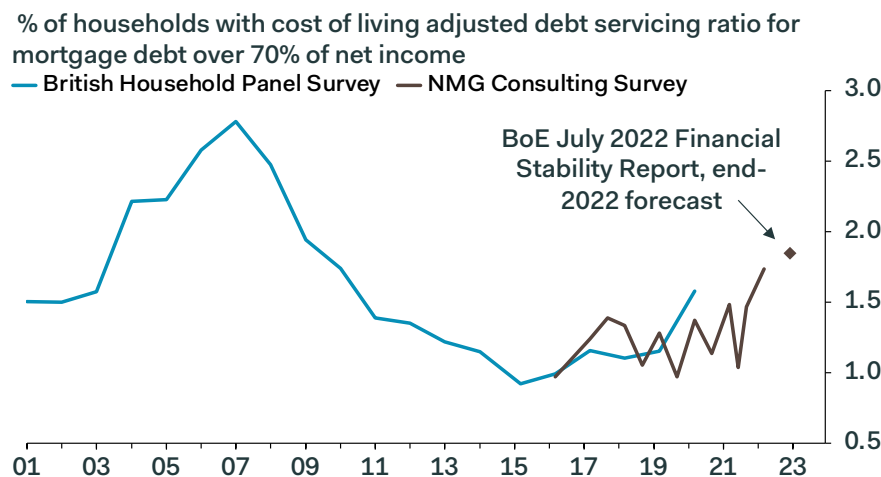




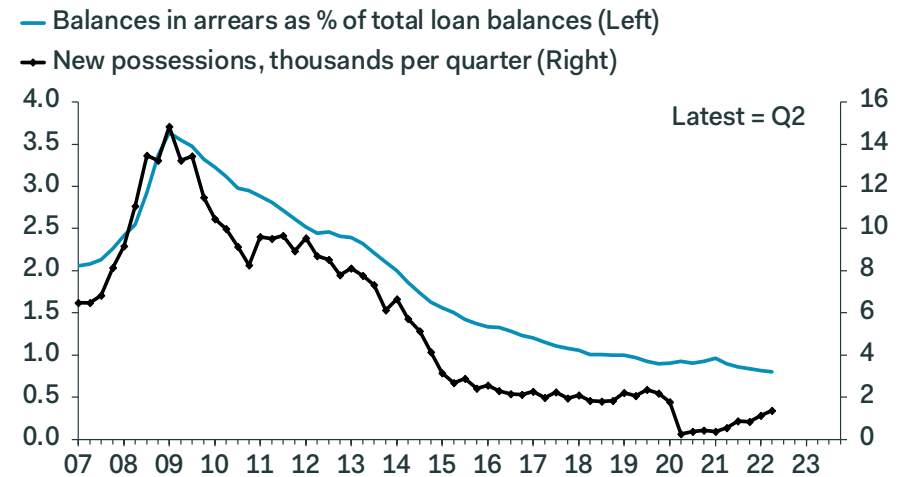
25. HIGHER LTV LENDING HAS RISEN; HIGH LTI LENDING IS WELL BELOW THE CAP



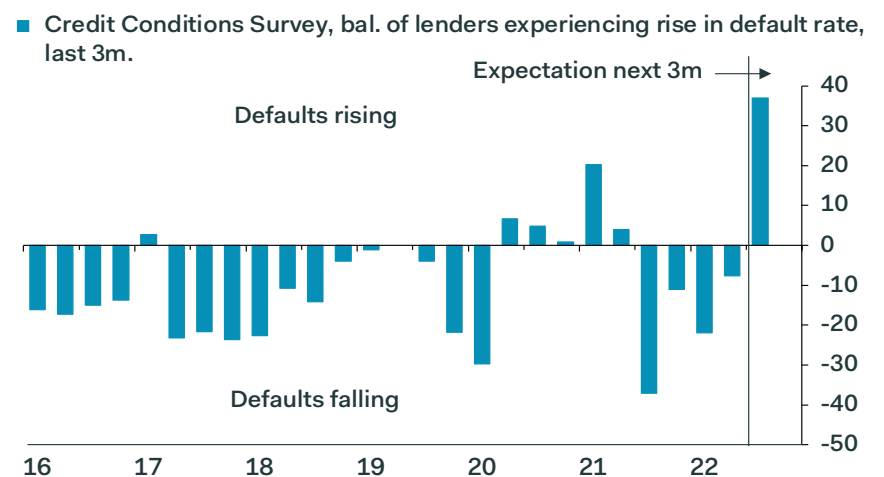
26. THE PROPORTION OF OVERBURDENED HOUSEHOLDS WILL RISE THIS YEAR



27. THE STRONG LABOUR MARKET HAS KEPT ARREARS DOWN...



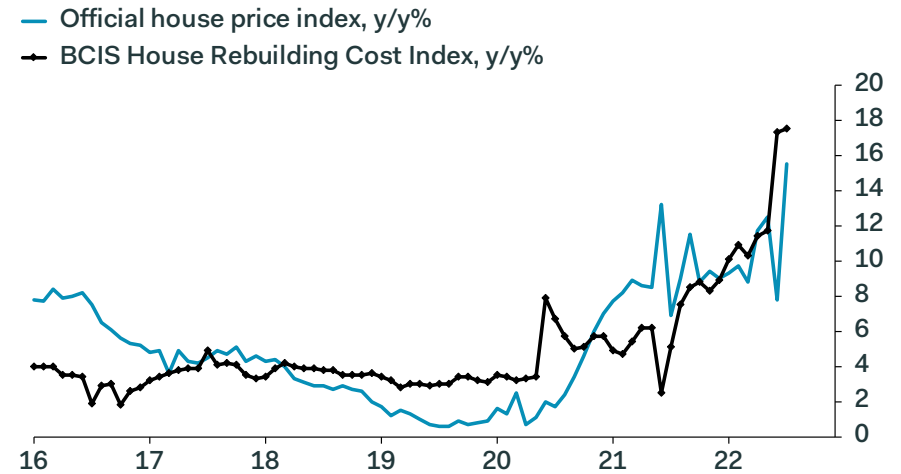
28. ...BUT LENDERS EXPECT DEFAULT RATES TO RISE AS REAL INCOMES DROP



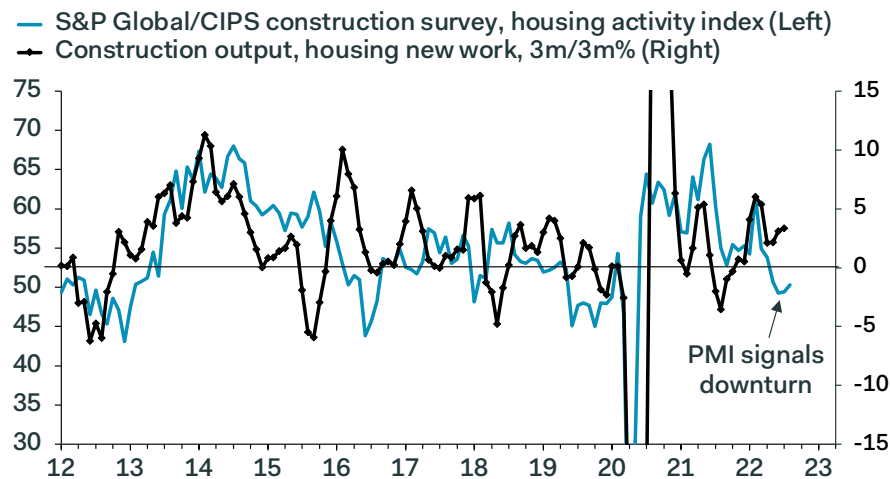
29. HOUSING STARTS HAVE JUMPED, ON THE EVE OF A MARKET SLOWDOWN



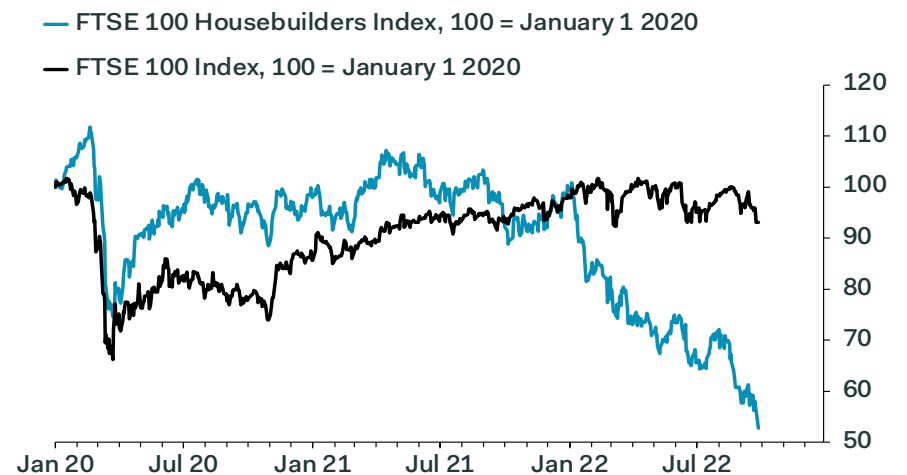
31. RAPID INCREASES IN COSTS HAVE UNDERMINED MARGINS



30. HOUSEBUILDERS NOW ARE STARTING TO PAUSE NEW PROJECTS



32. THE BANK RATE OUTLOOK IS WEIGHING ON BUILDERS' EQUITY PRICES

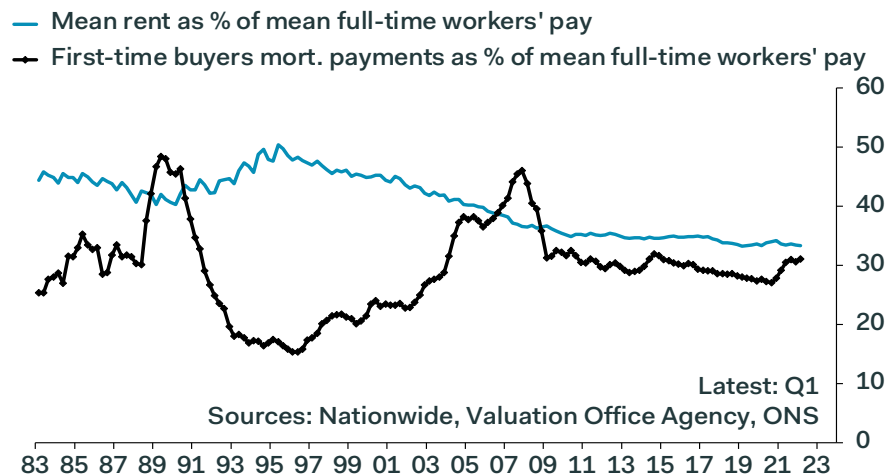




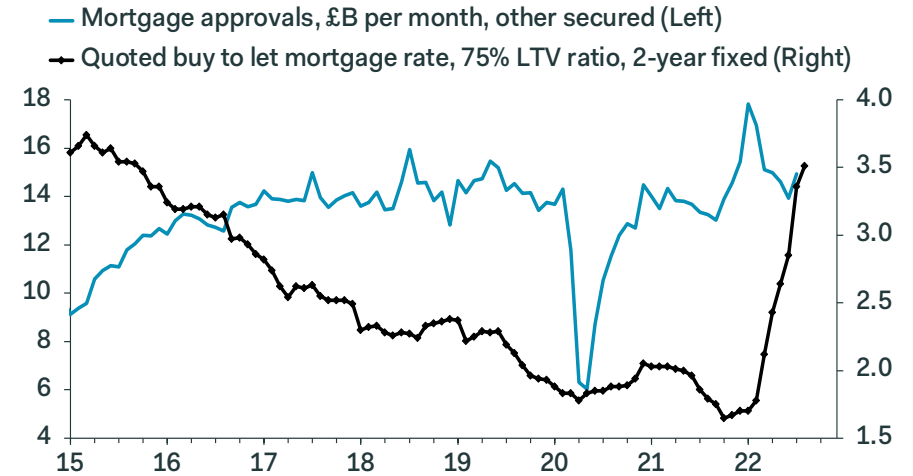
33. BTL INVESTORS HAVE BENEFITED FROM CAPITAL GAINS AND RISING RENTS



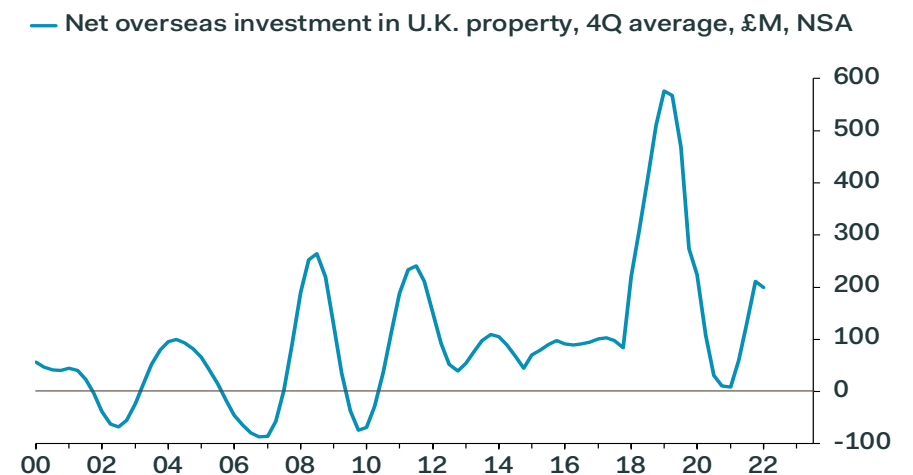
34. RISING OWNER-OCCUPIER COSTS WILL CURB THE OUTFLOW OF TENANTS



35. RENTS, HOWEVER, WON'T KEEP PACE WITH THE RISE IN MORTGAGE COSTS



36. OVERSEAS INVESTMENT IN U.K. PROPERTIES HAS RECOVERED

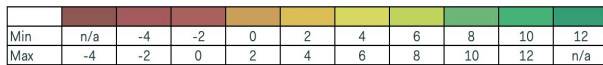
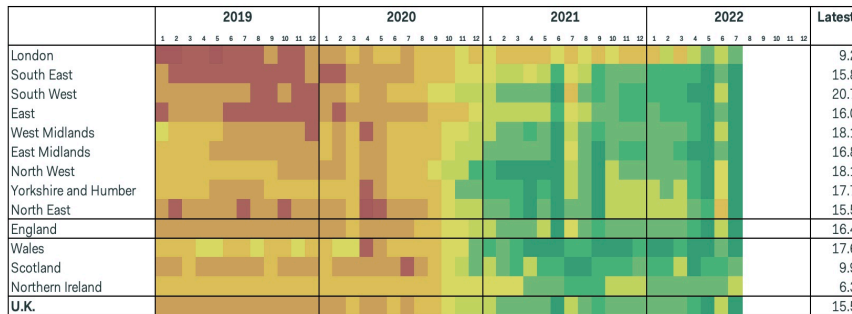




37. HOUSE PRICES HAVE LEAPT IN MOST REGIONS; LONDON STILL LAGS BEHIND

Pantheon Macroeconomics U.K. Regional House Price Heatmap

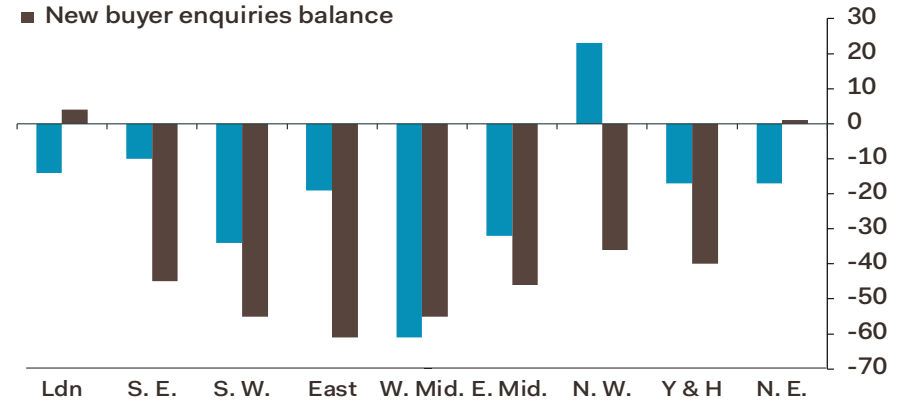
Official Land Registry data, y/y% growth rate



39. RIGHT NOW, DEMAND REPORTEDLY IS HOLDING UP BEST OF ALL IN LONDON...

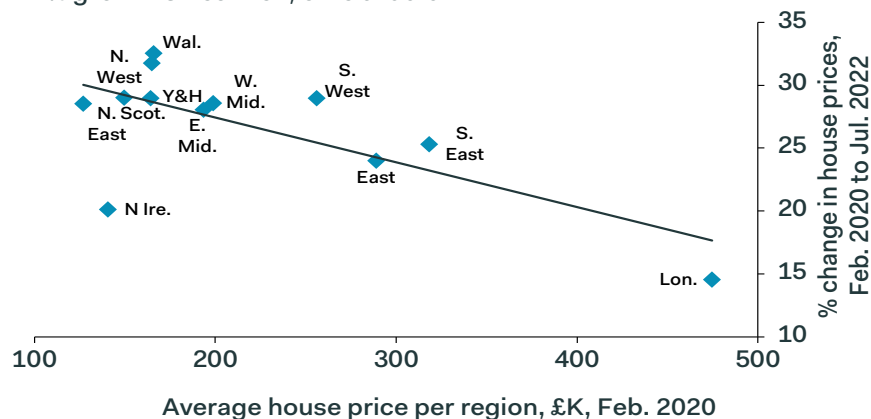
RICS Residential Market Survey, August 2022

- Price expectations balance
- New buyer enquiries balance



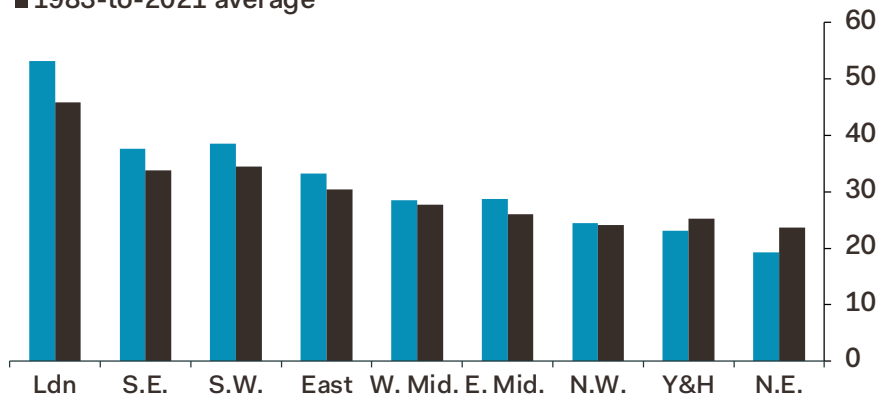
38. POST-PANDEMIC GROWTH HAS BEEN STRONGEST IN CHEAPER REGIONS

- Average house prices by region before the Covid-19 pandemic and % growth since then, official data



40. ...EVEN THOUGH AFFORDABILITY IS EVEN MORE STRETCHED THAN USUAL

- Nationwide's first time buyer mortgage payments as a % of mean take home pay, Q2 2022
- 1983-to-2021 average



	Averages						
	2000-to-19	2015-to-19	2020	2021	2022	2023	2024
Key Macro Variables (y/y%, full-year average)							
GDP	1.8	2.1	-9.3	7.4	3.4	-1.5	0.5
Households' nominal disposable incomes	0.9	0.9	0.6	3.7	6.1	3.4	2.5
Households' real disposable incomes	2.2	2.6	0.0	1.1	-1.9	-1.5	0.7
Households' real spending	2.1	2.5	-10.5	6.2	4.1	-1.2	0.4
Employment	0.9	1.3	-0.9	-0.3	1.0	-0.7	0.5
Unemployment rate (%)	5.7	4.5	4.6	4.5	3.9	5.3	5.3
Average weekly wages	3.0	2.7	1.8	5.9	5.9	4.0	3.2
CPI	2.0	1.5	0.9	2.6	9.0	5.4	3.0
Housing Market Variables (y/y%, full-year average, unless stated)							
House prices, Official measure (Q4)	5.8	4.3	2.8	9.2	10.0	-1.8	1.0
	-	-	6.0	9.6	7.8	-4.5	3.5
Ratio of average house price to average annual earnings	7.45	8.21	8.32	8.72	8.82	8.31	8.19
Ratio of average house price to annual nominal disposable income per household	4.26	4.47	4.60	4.98	5.17	4.80	4.81
Mortgage debt, % of all households' incomes	101.2	100.9	101.7	102.8	102.4	100.9	102.5
Monthly mortgage payments, purchaser of average property with 75% LTV mortgage, £	-	741	860	871	1180	1490	1390
% of an average household's nominal disposable income	-	18.1	20.0	19.6	25.2	31.0	28.4
Mortgage approvals, house purchases, month-average	77.9	66.5	68.4	78.7	63.0	55.0	62.0
Mortgage approvals, remortgaging, month-average	59.8	45.1	37.8	38.4	52.0	63.0	52.0
Residential property transactions, month-average	96.8*	100.8	86.6	123.4	95.0	83.0	94.0
Interest Rates (% end-year)							
Bank Rate	2.42	0.51	0.10	0.25	3.50	4.00	3.50
Effective interest rate, all new mortgages, %	4.30	2.26	1.91	1.58	4.80	4.50	4.00
Effective interest rate, all outstanding mortgages, %	4.28	2.68	2.12	2.01	2.60	3.50	3.80

* 2005-to-19 average