



INDEPENDENT ANALYSIS , FORECASTS AND CONSULTANCY

The Outlook for the UK Housing Market

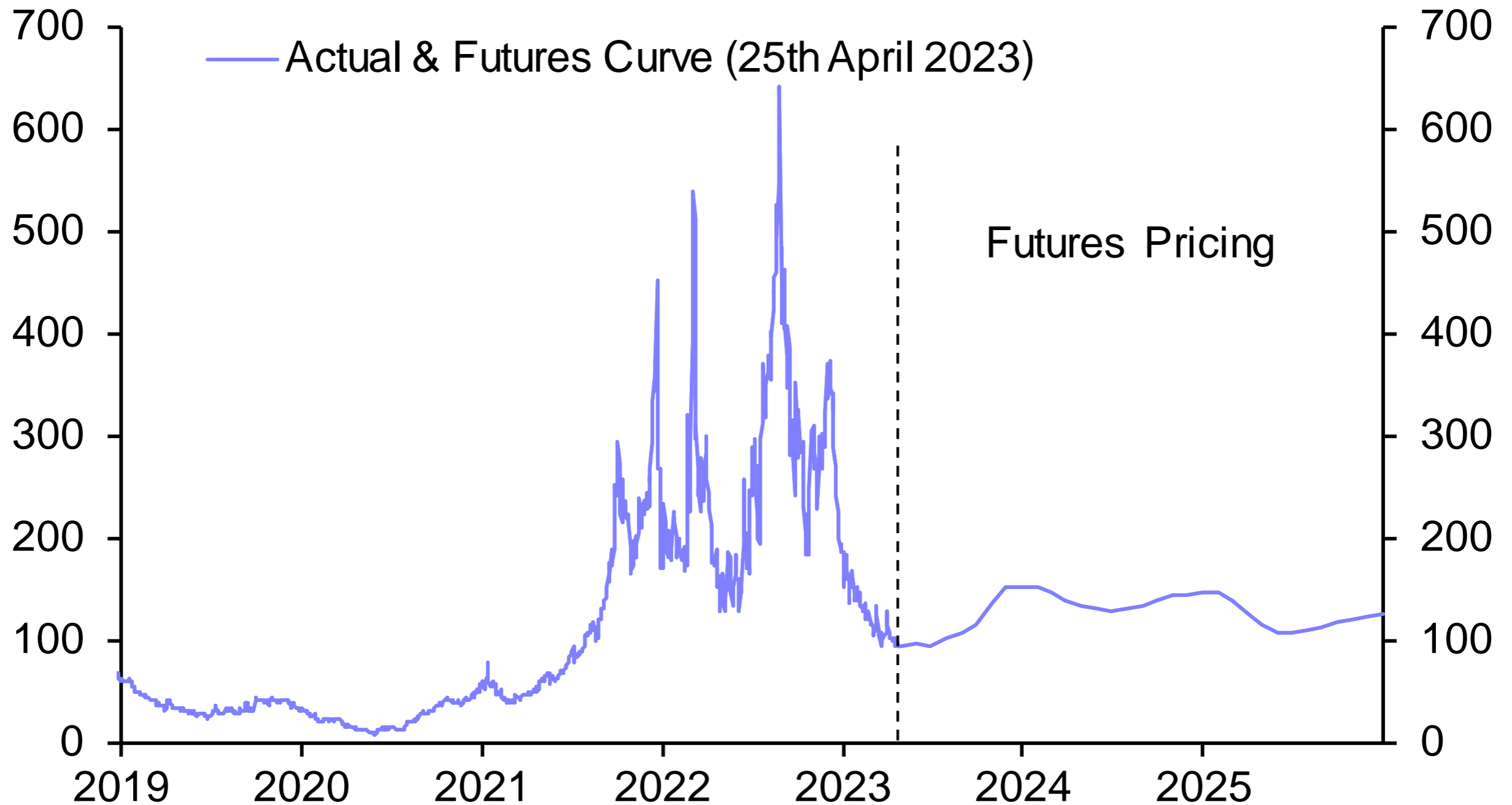
Andrew Wishart

Building Societies Annual Conference
4th May 2023

1. Agenda

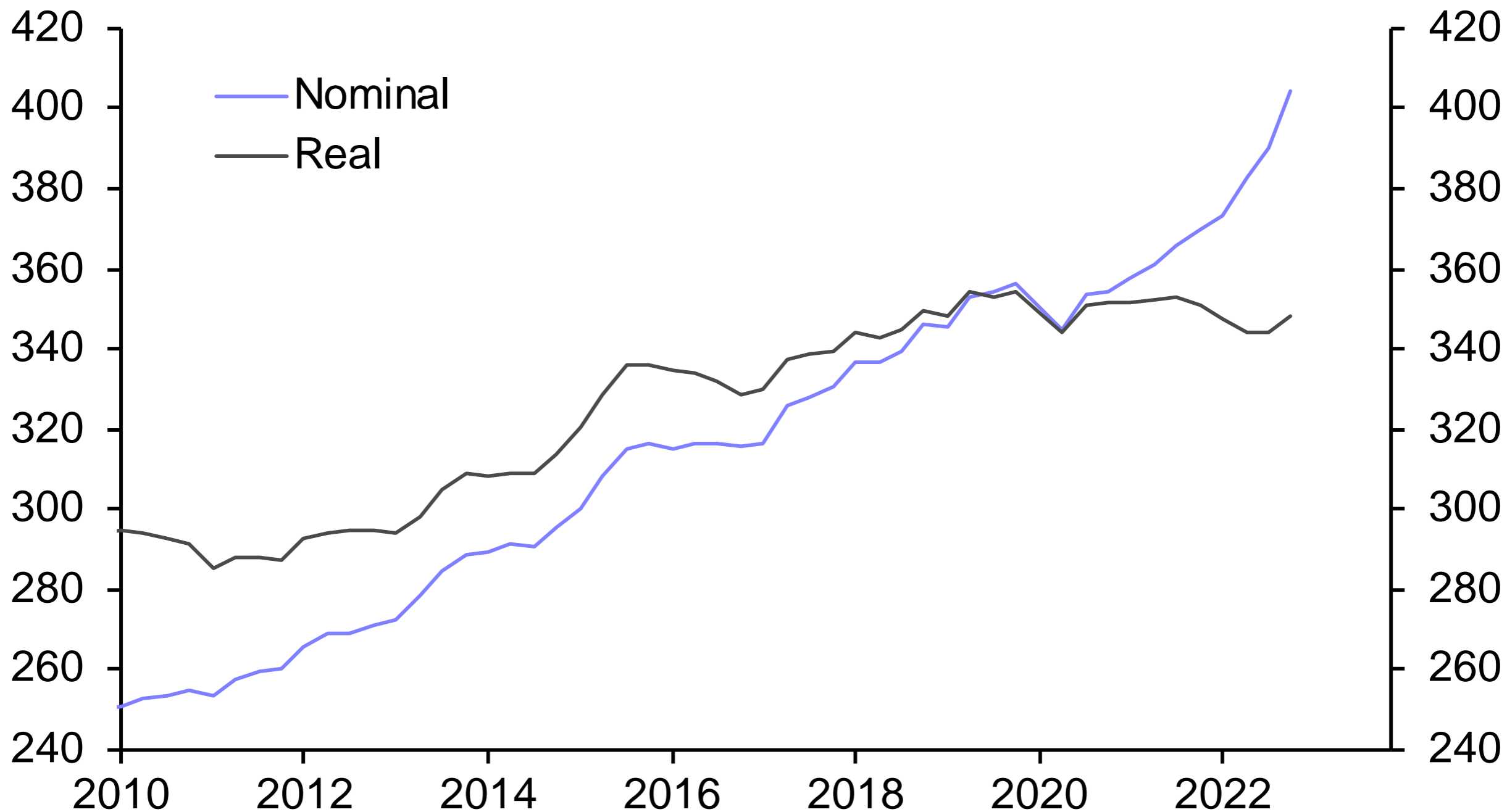
- What explains the resilience of the economy?
- What is the outlook for interest rates and mortgage pricing?
- Are house prices still falling? And how much further could they drop?
- What are the implications for lending volumes and construction?
- Are we at a turning point in the provision of rented homes?
- Conclusions and Q&A

2. Wholesale Gas Price (Pence Per Therm)



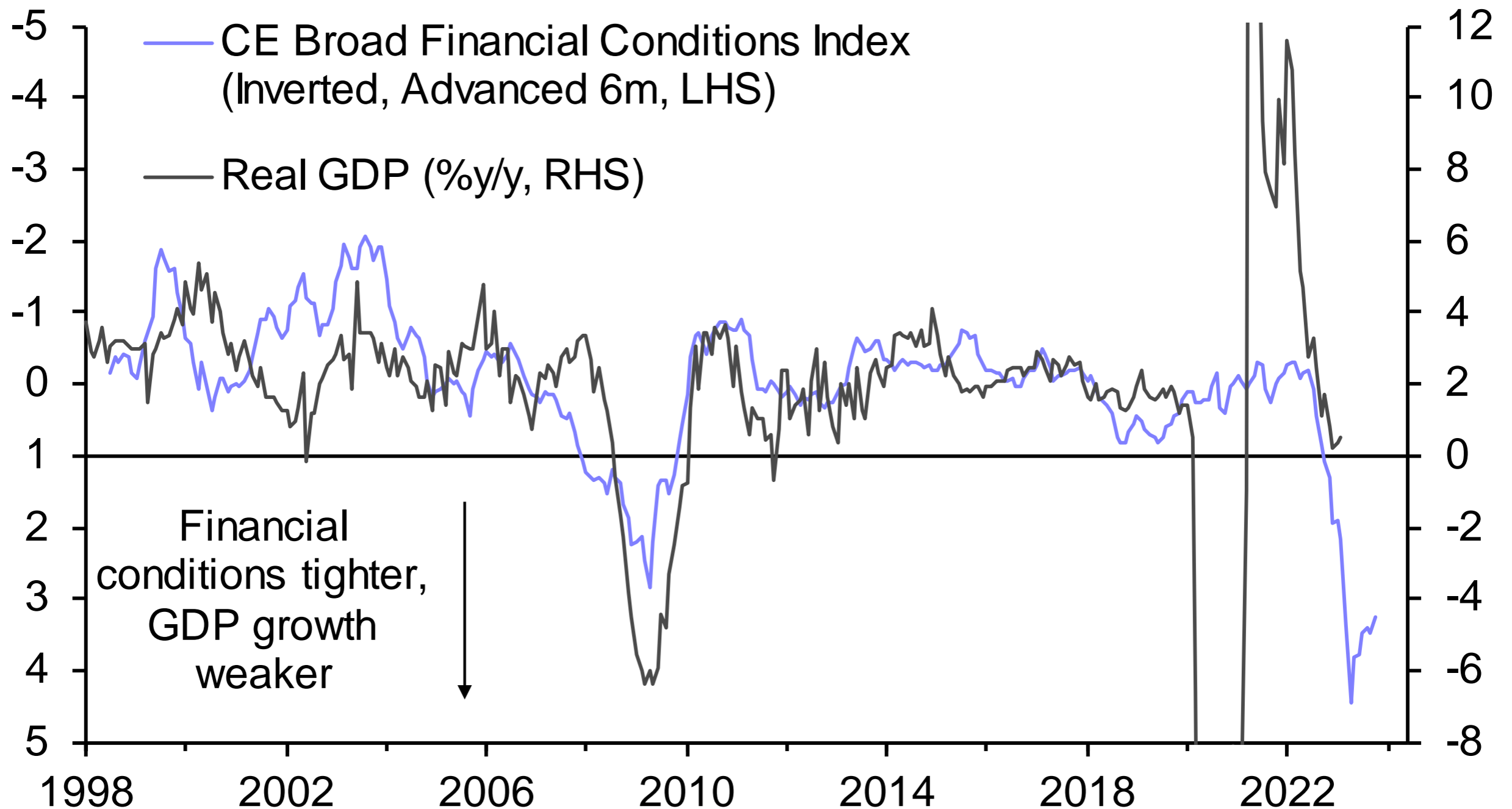
Sources: Refinitiv, Capital Economics

3. Household Disposable Income (£bn)



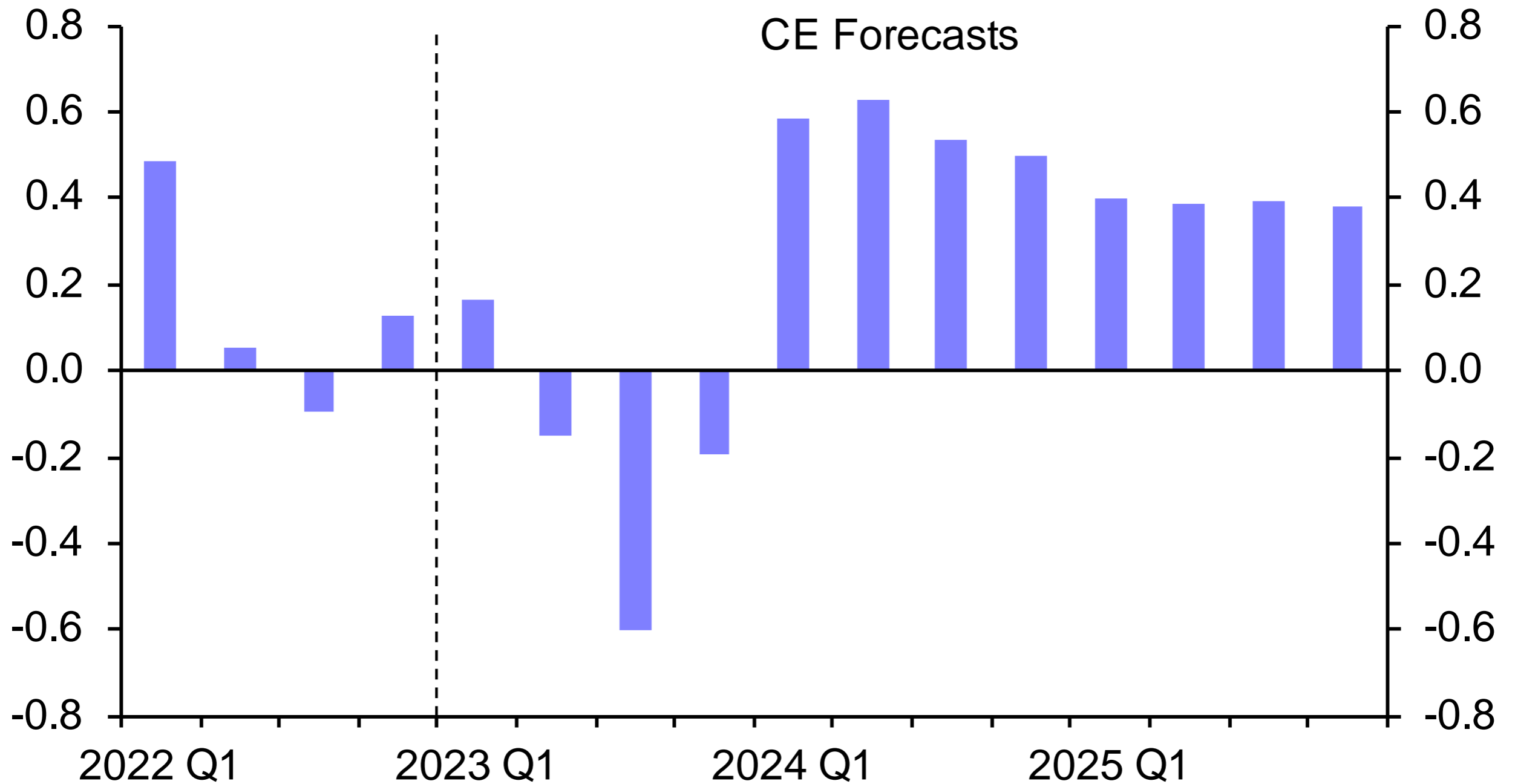
Sources: Refinitiv, Capital Economics

4. Capital Economics Financial Conditions Index & Real GDP



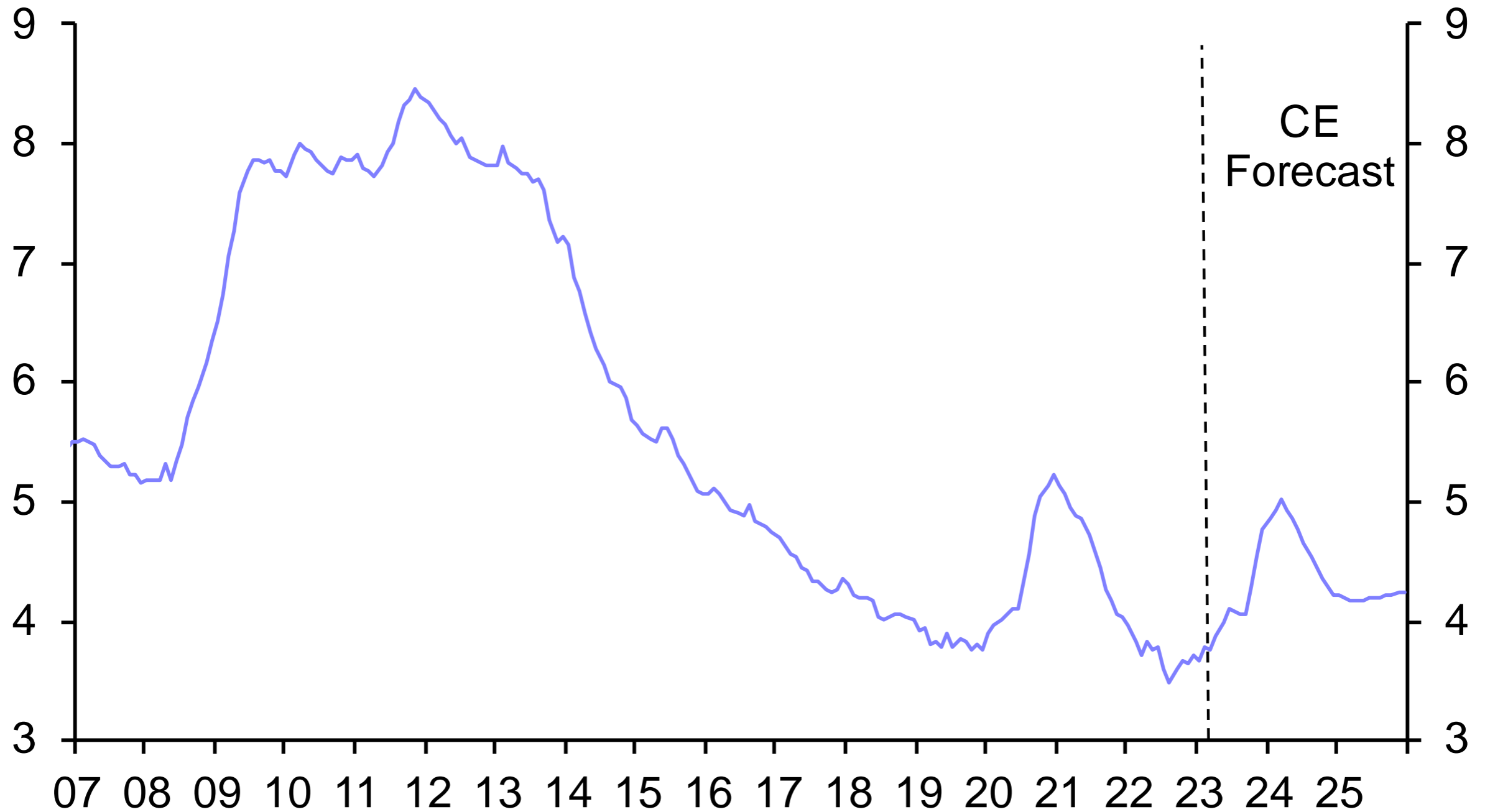
Sources: Refinitiv, Capital Economics

5. Real GDP (%q/q)



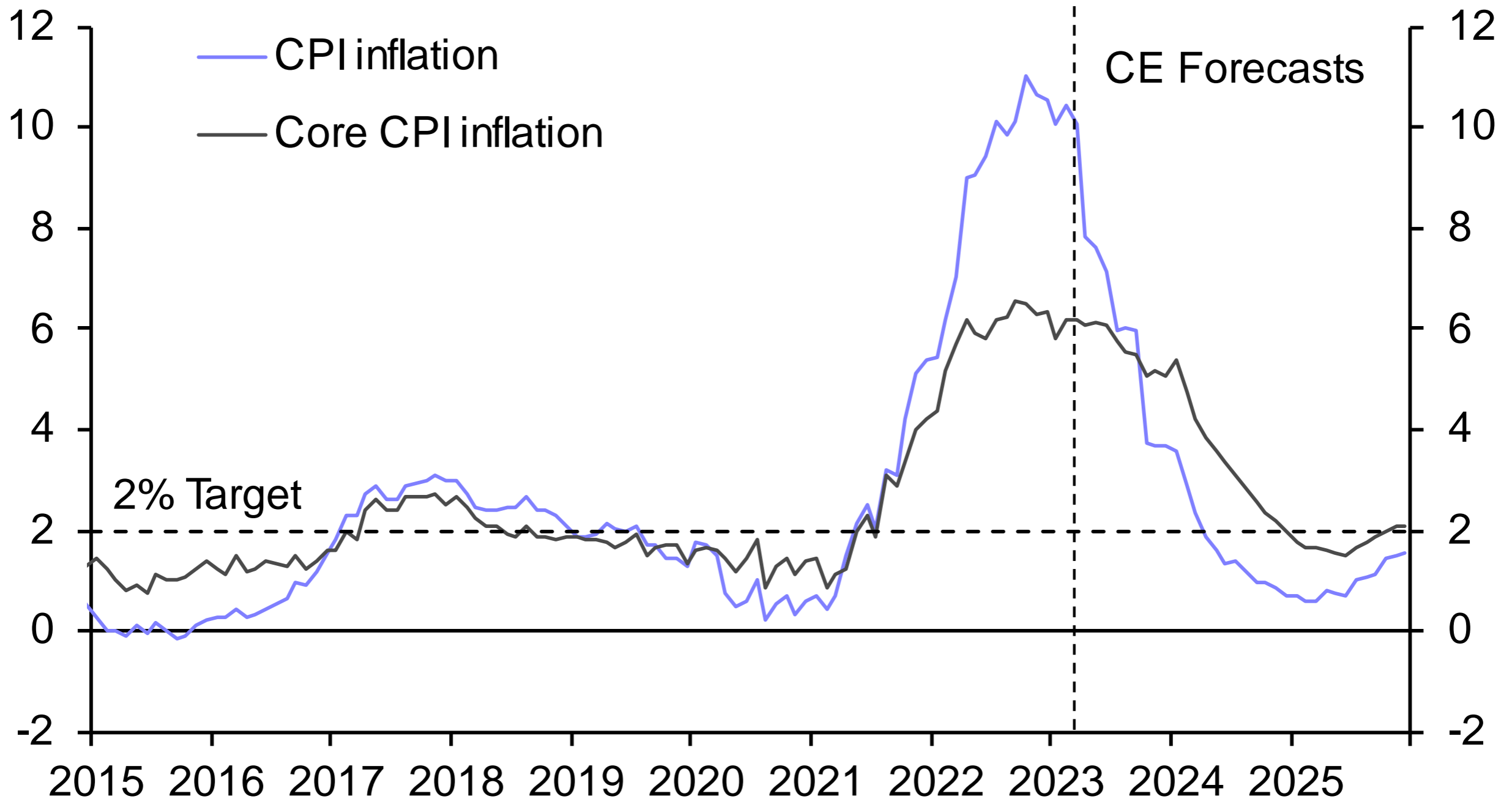
Sources: Refinitiv, Capital Economics

6. Unemployment Rate (%)



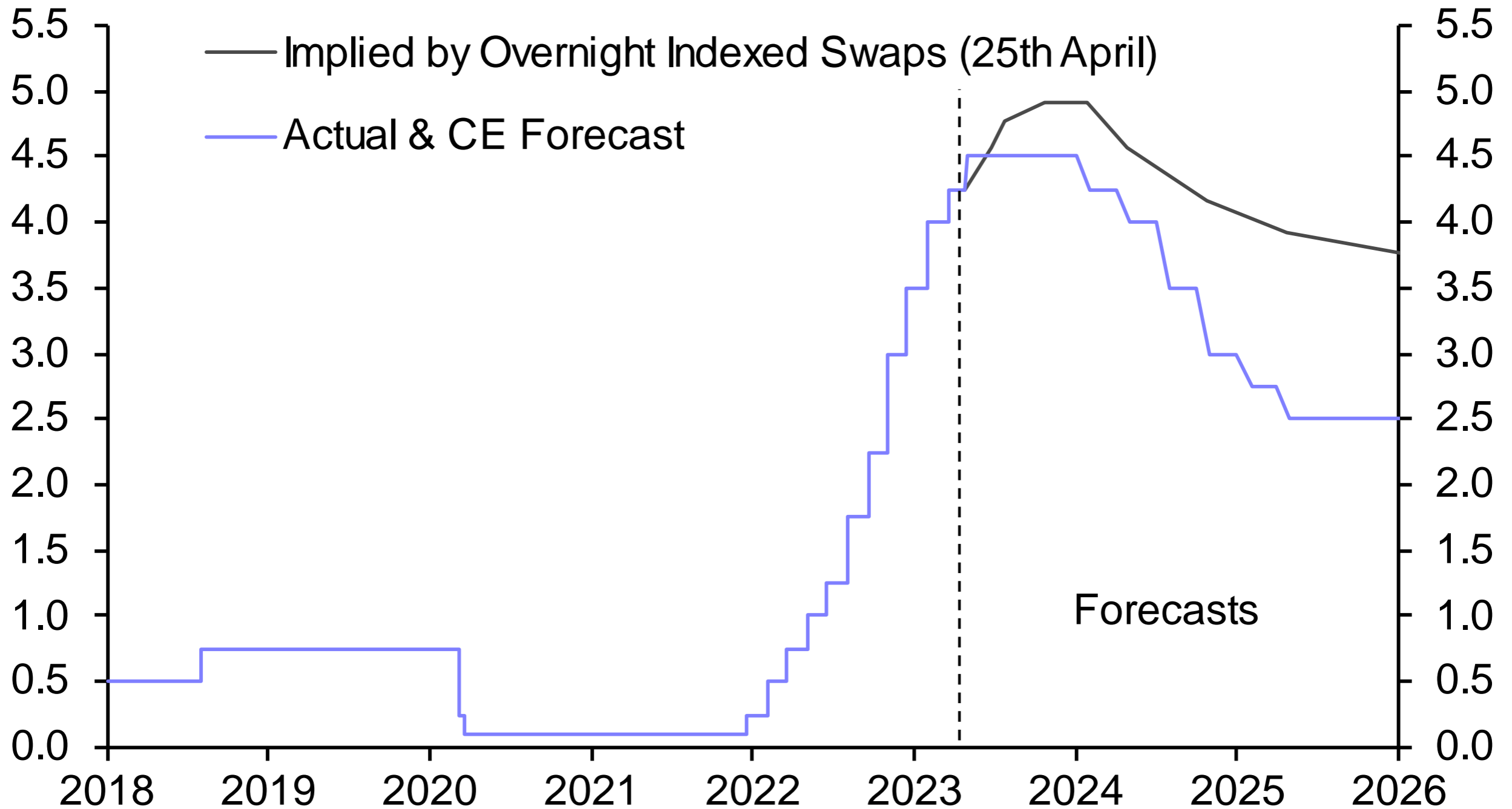
Sources: Refinitiv, Capital Economics

7. CPI Inflation (%)



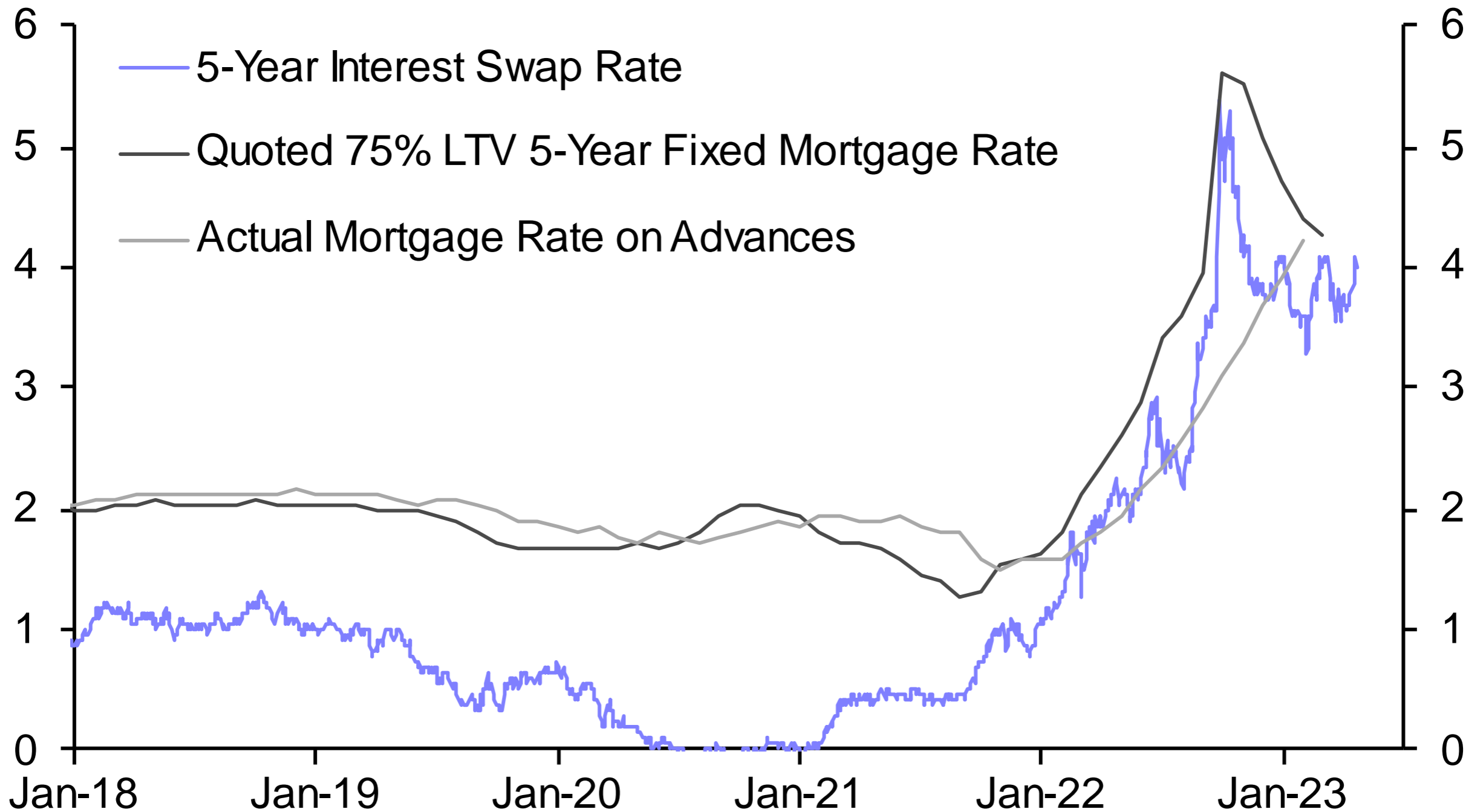
Sources: Refinitiv, Capital Economics

8. Bank Rate (%)



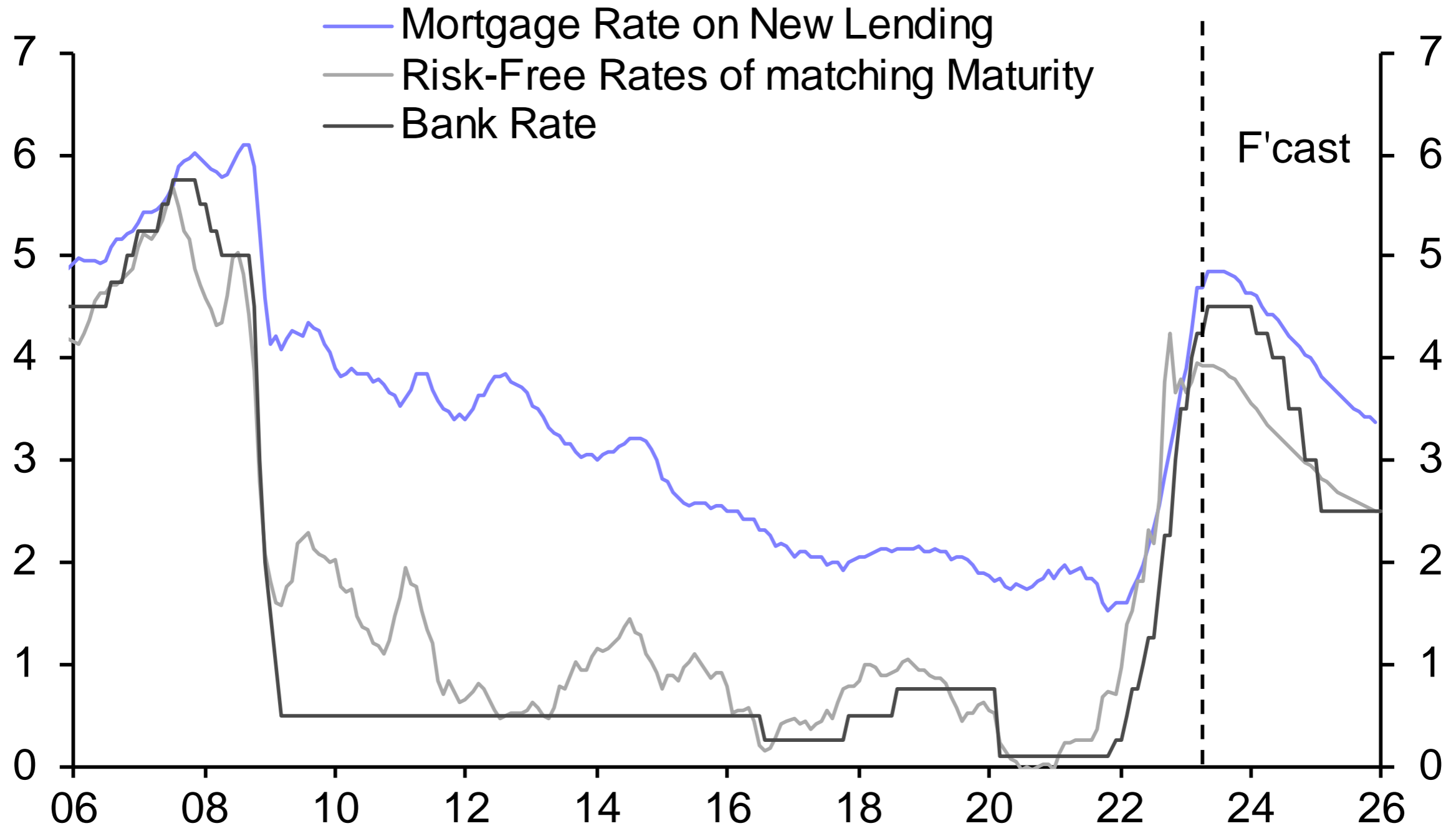
Sources: Refinitiv, Capital Economics

9. Interest Rates (%)



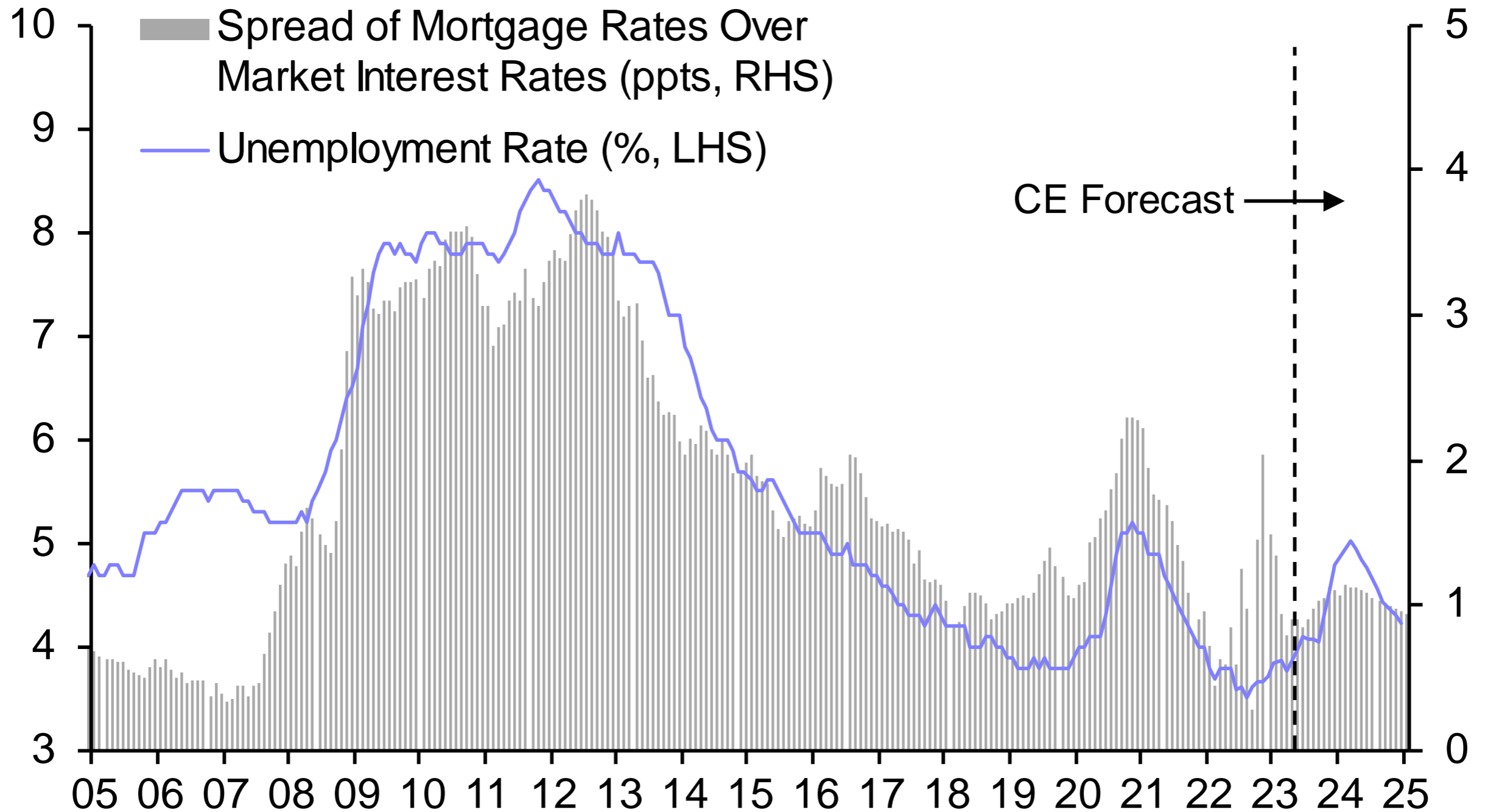
Sources: Refinitiv, Capital Economics

10. Interest Rates (%)



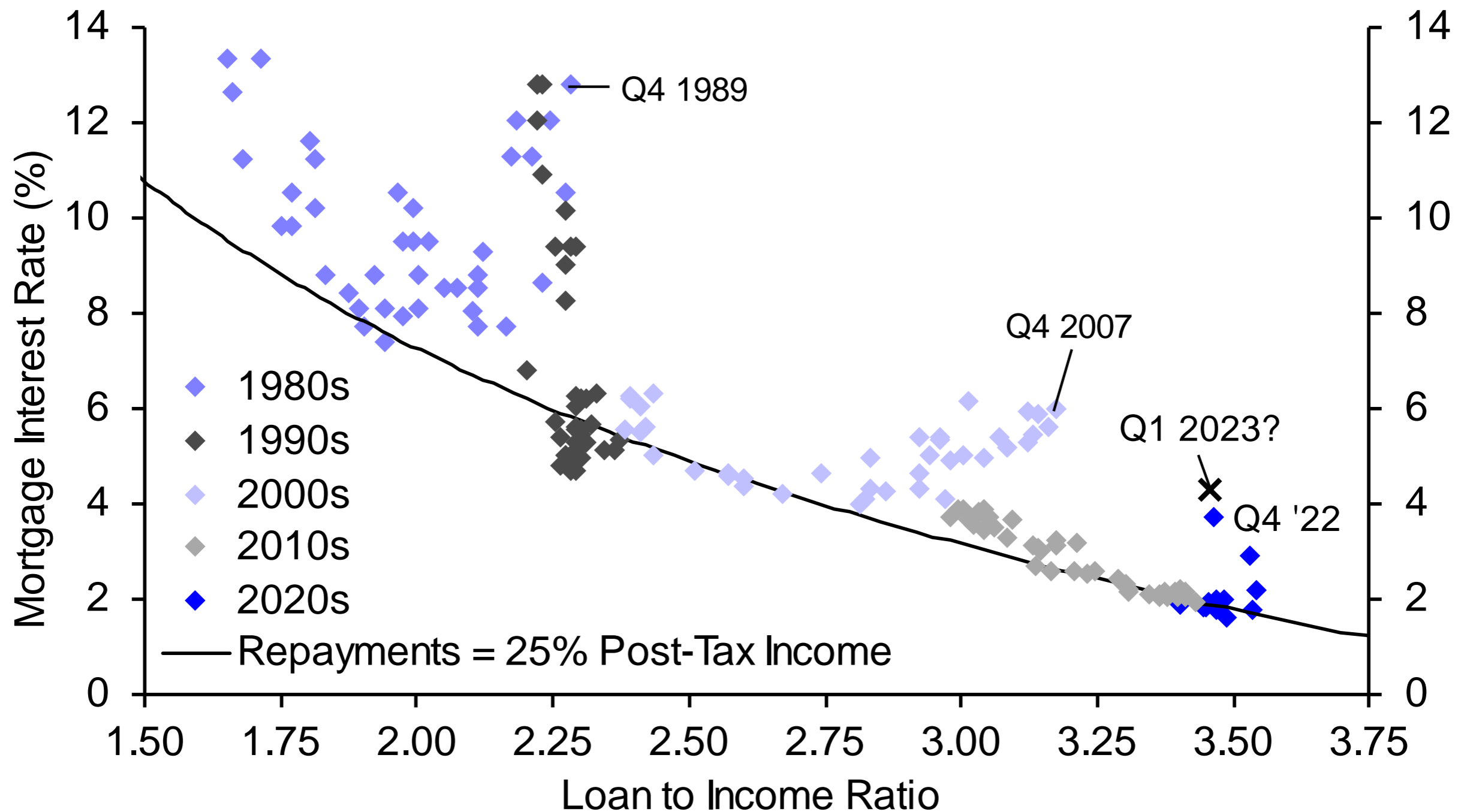
Sources: Refinitiv, Capital Economics

11. The Unemployment Rate & Net Interest Margins



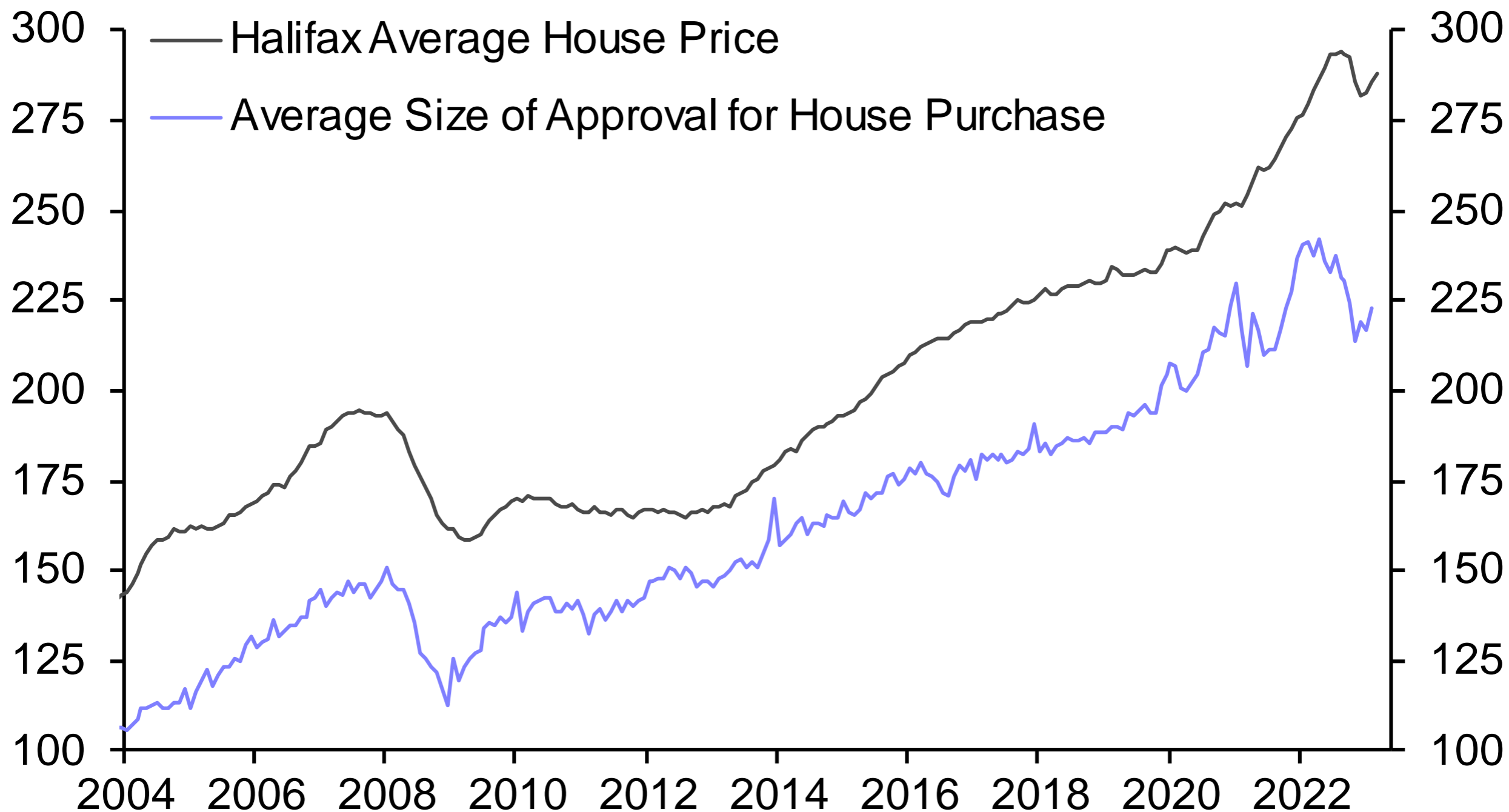
Sources: Refinitiv, Capital Economics

12. Average Mortgage Rate & Loan-to-Income Ratio



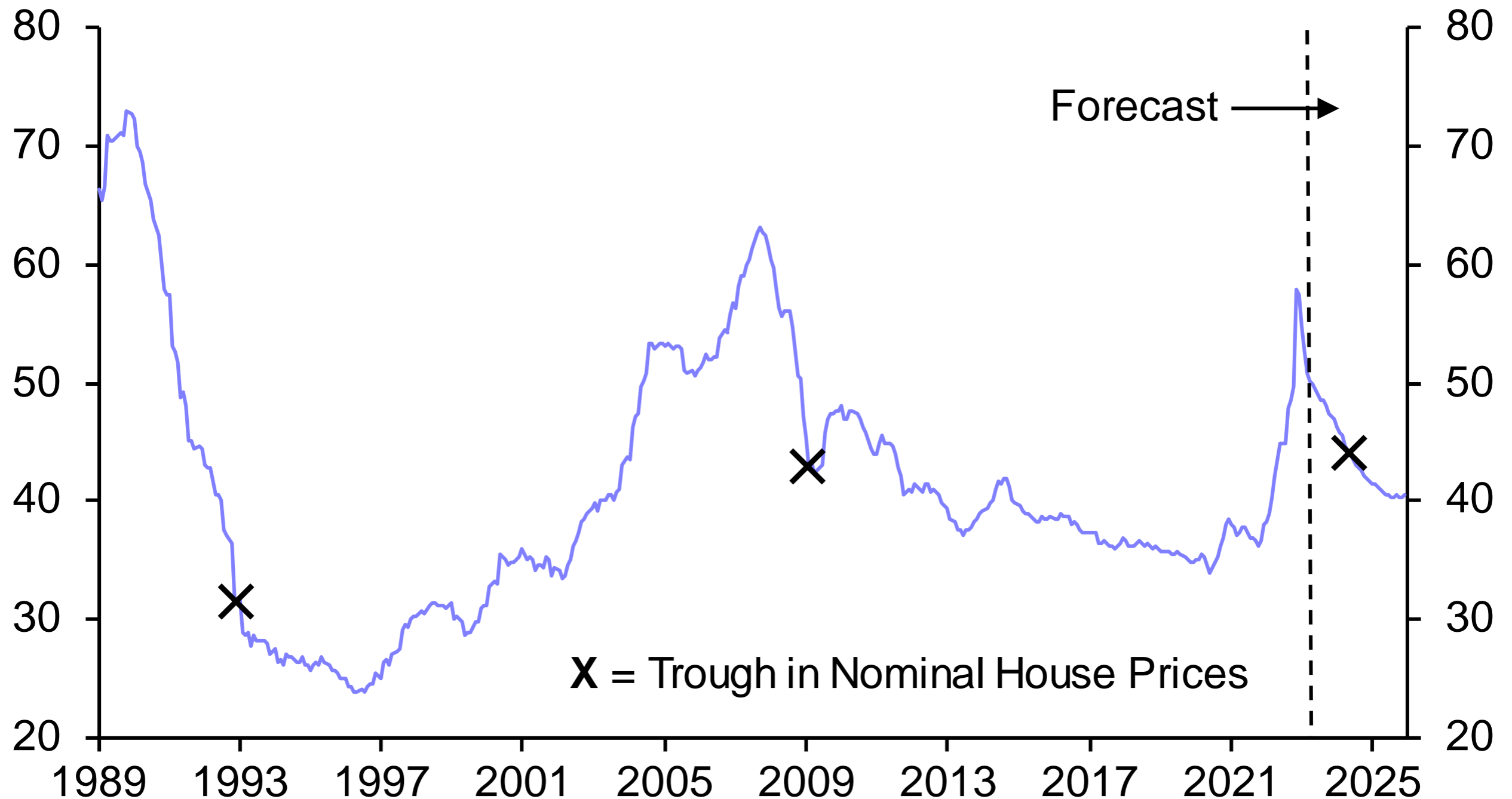
Sources: Refinitiv, Capital Economics

13. Average Mortgage Size & Halifax House Price Index



Sources: Refinitiv, Capital Economics

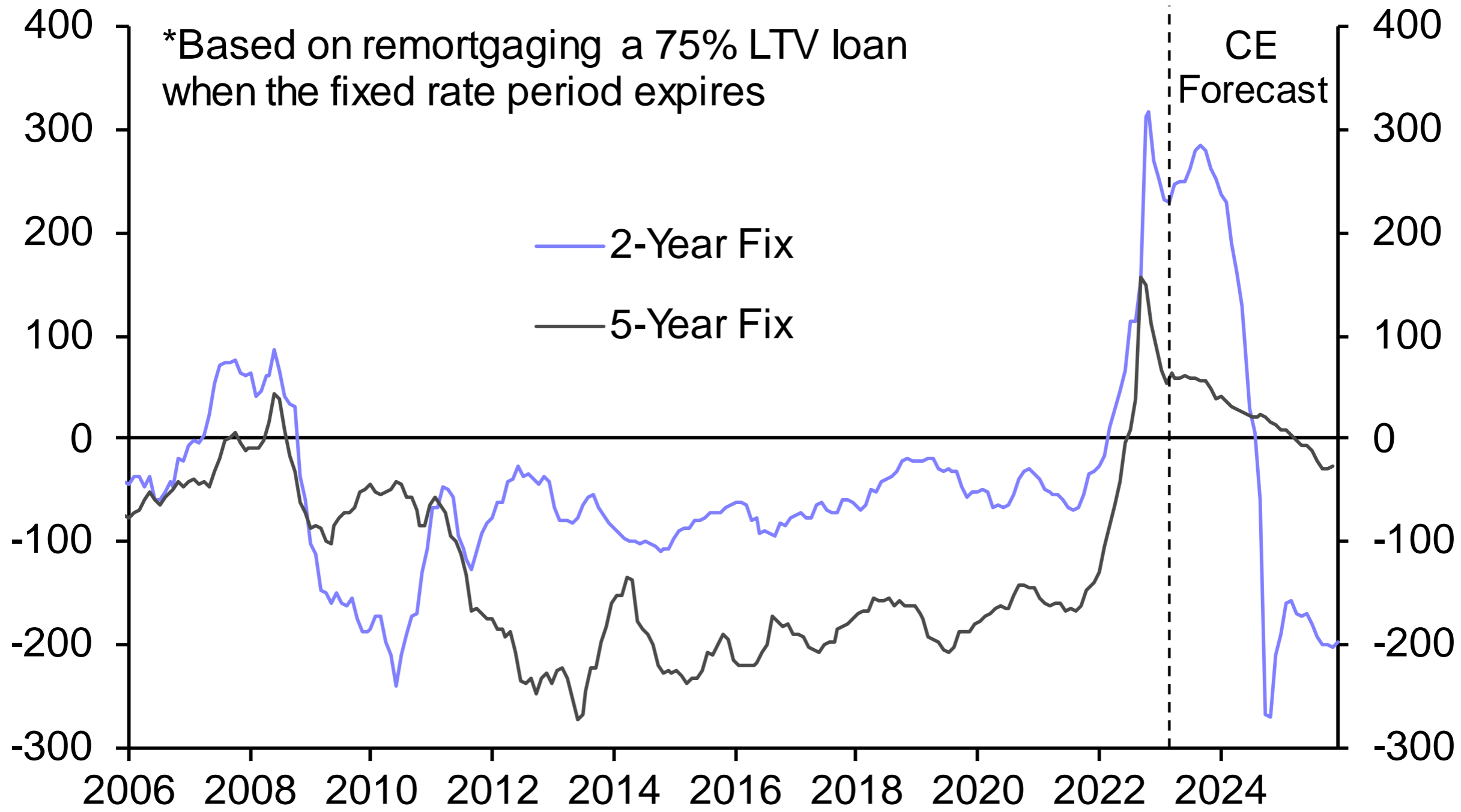
14. Cost of Monthly Mortgage Payments¹ (% Median Income)



1. Monthly repayment for a new mortgage of 80% of the average Nationwide house price advanced at the average quoted rate on a 25-year term as a share of the UK median full-time disposable salary.

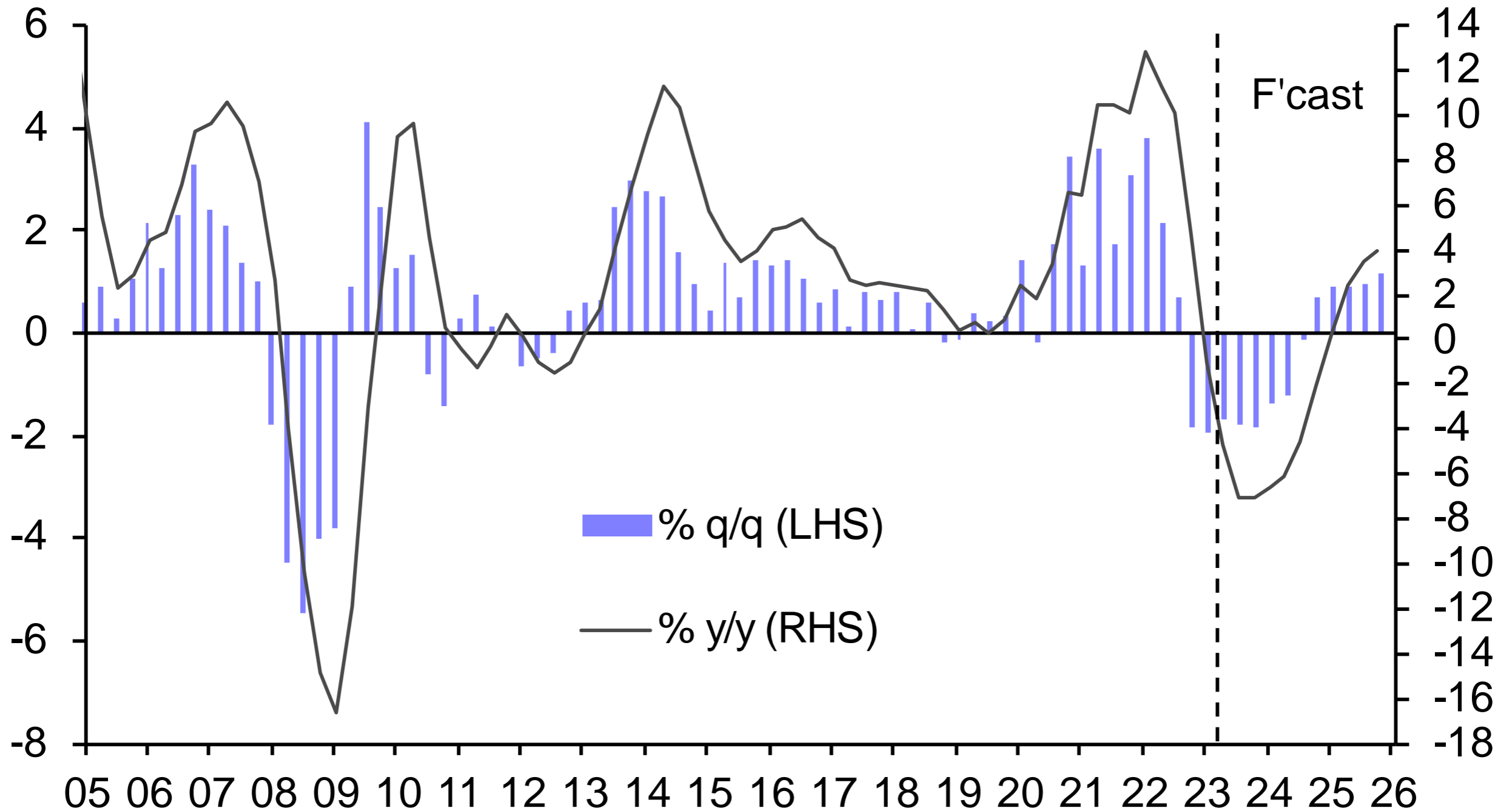
Sources: Refinitiv, Capital Economics

15. Change in Monthly Payment when Refinancing (£)



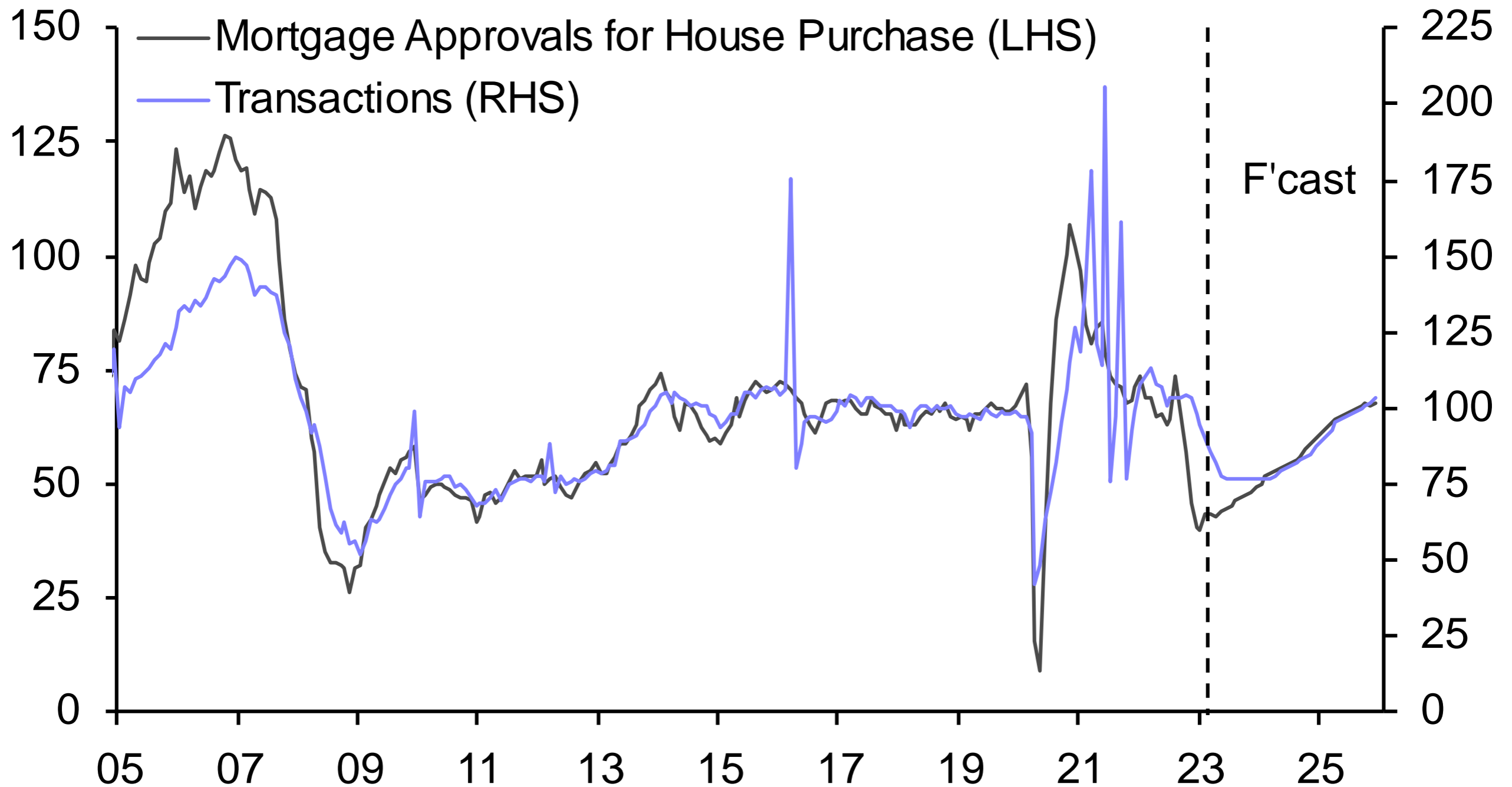
Sources: Refinitiv, Capital Economics

16. Nationwide House Price Index



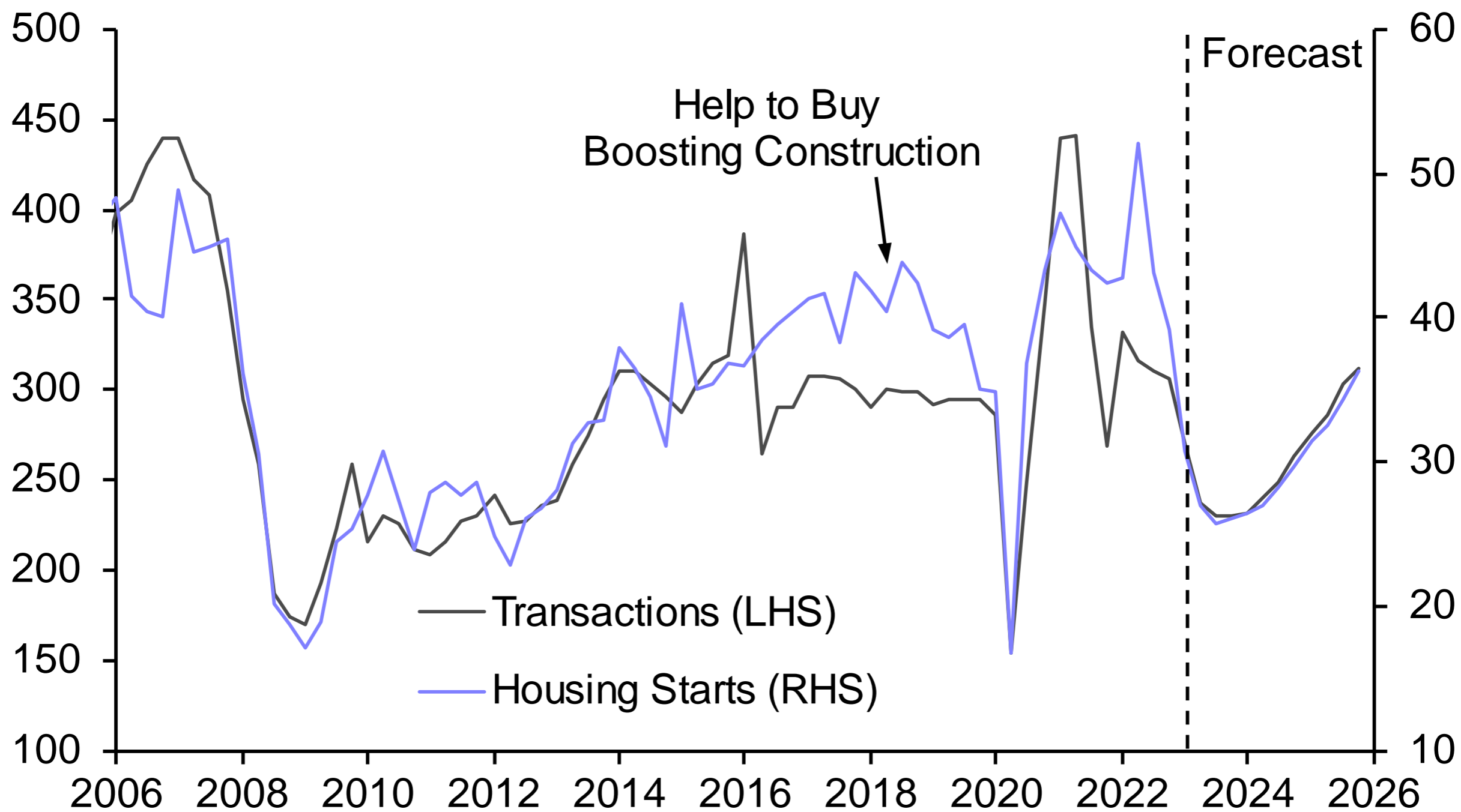
Sources: Refinitiv, Capital Economics

17. Mortgage Approvals & Total Transactions (000s)



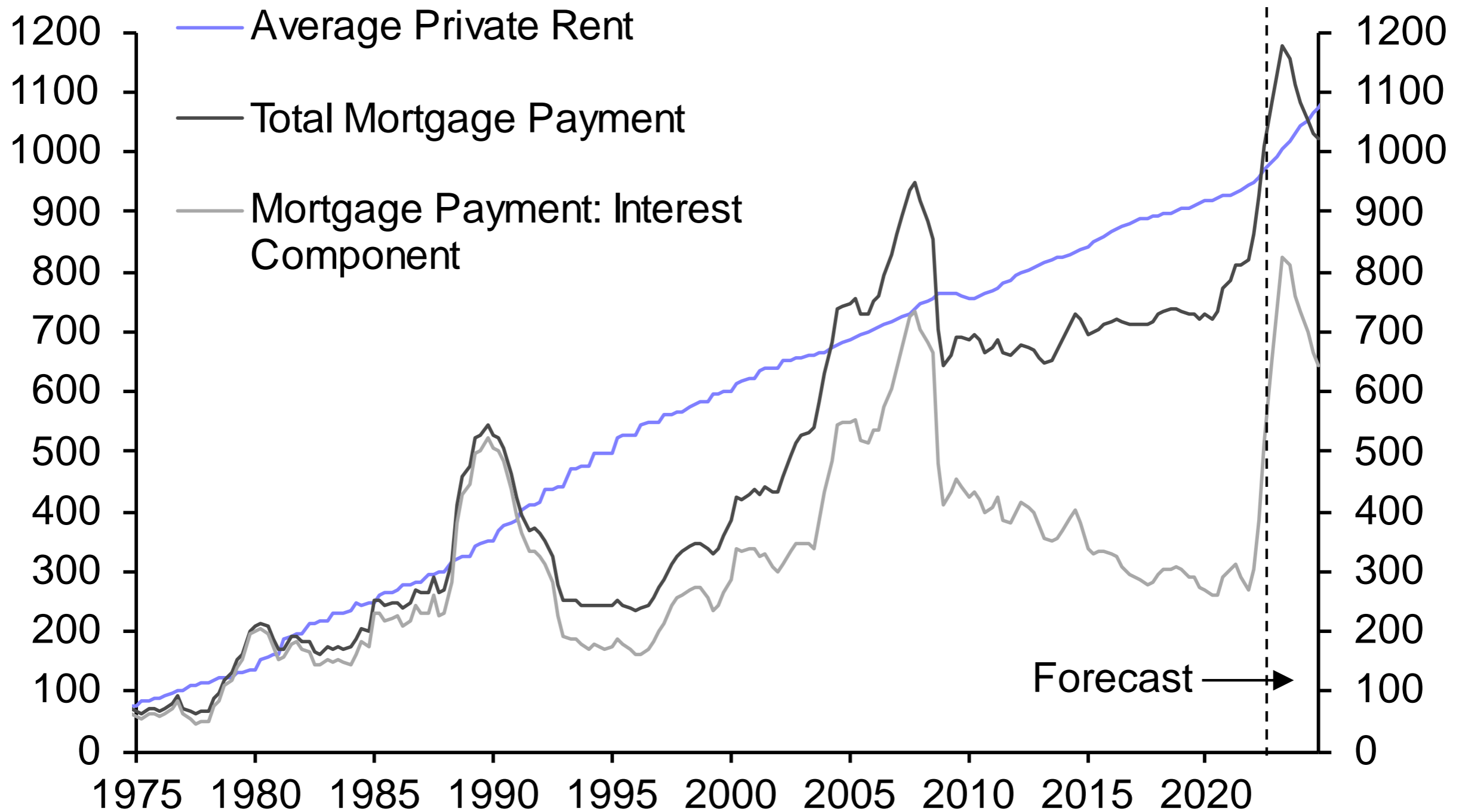
Sources: Refinitiv, Capital Economics

18. Transactions & New Housing Starts



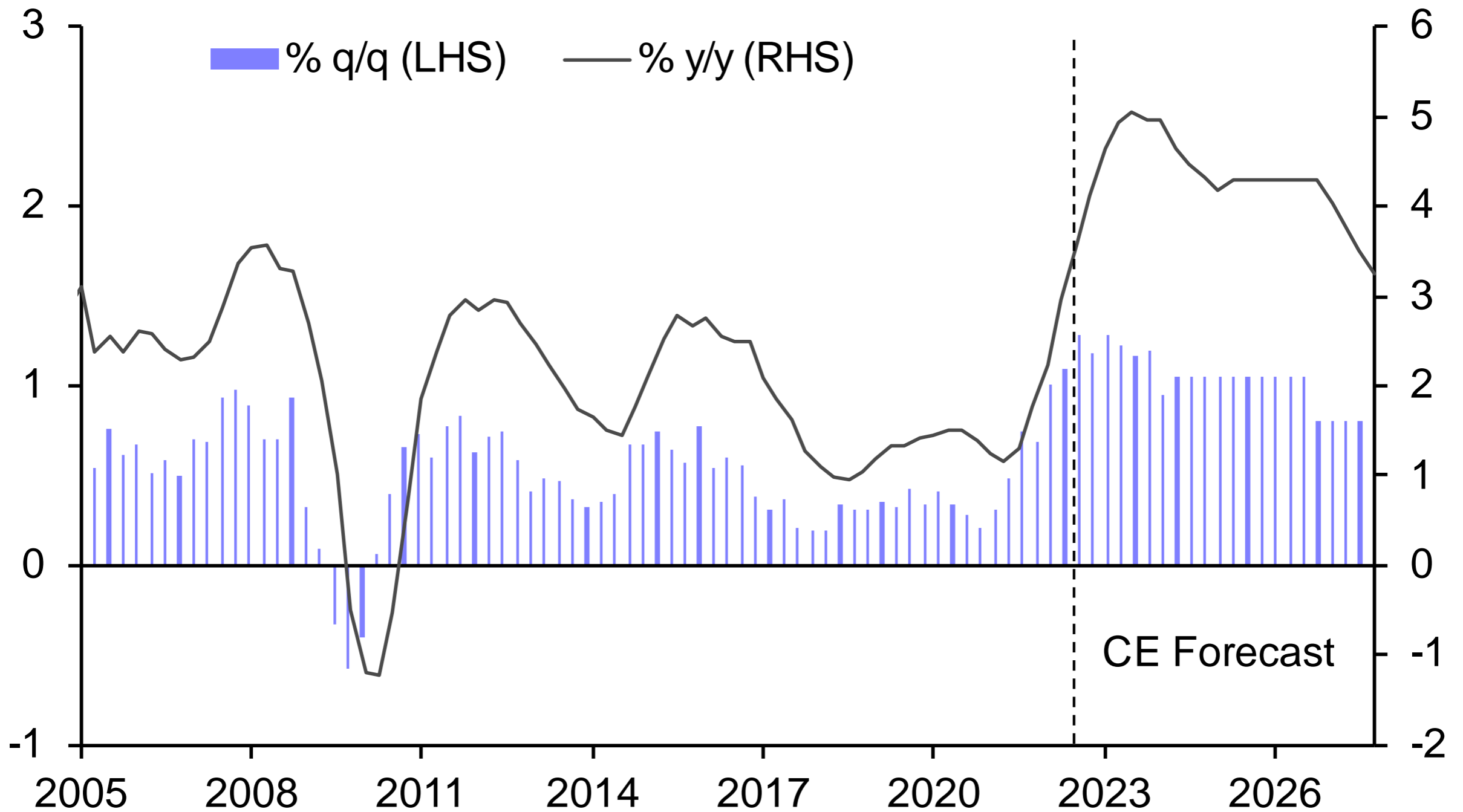
Sources: Refinitiv, Capital Economics

19. Rent & Mortgage Costs (£pm)



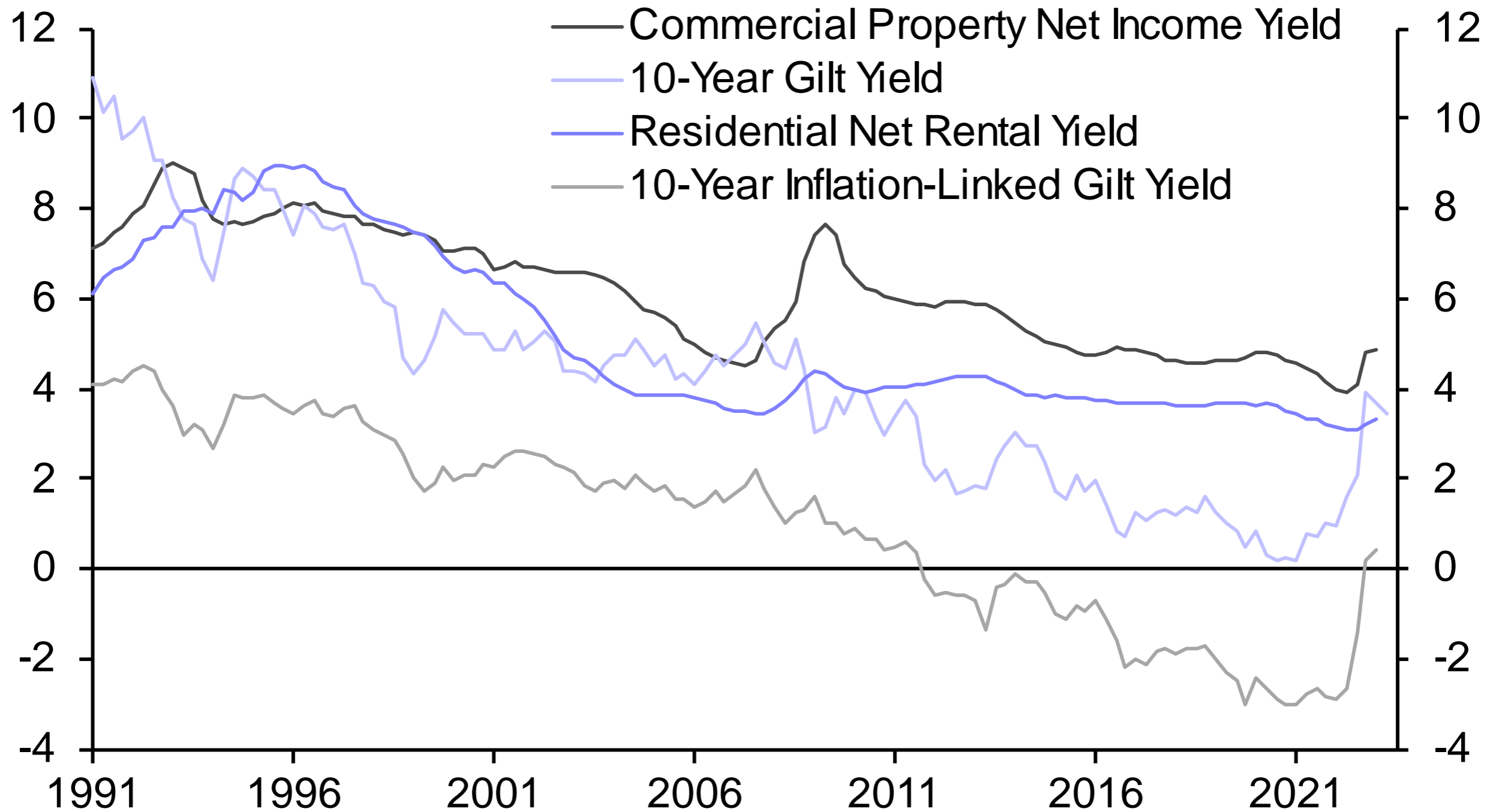
Sources: Refinitiv, Capital Economics

20. ONS Index of Private Housing Rent Prices



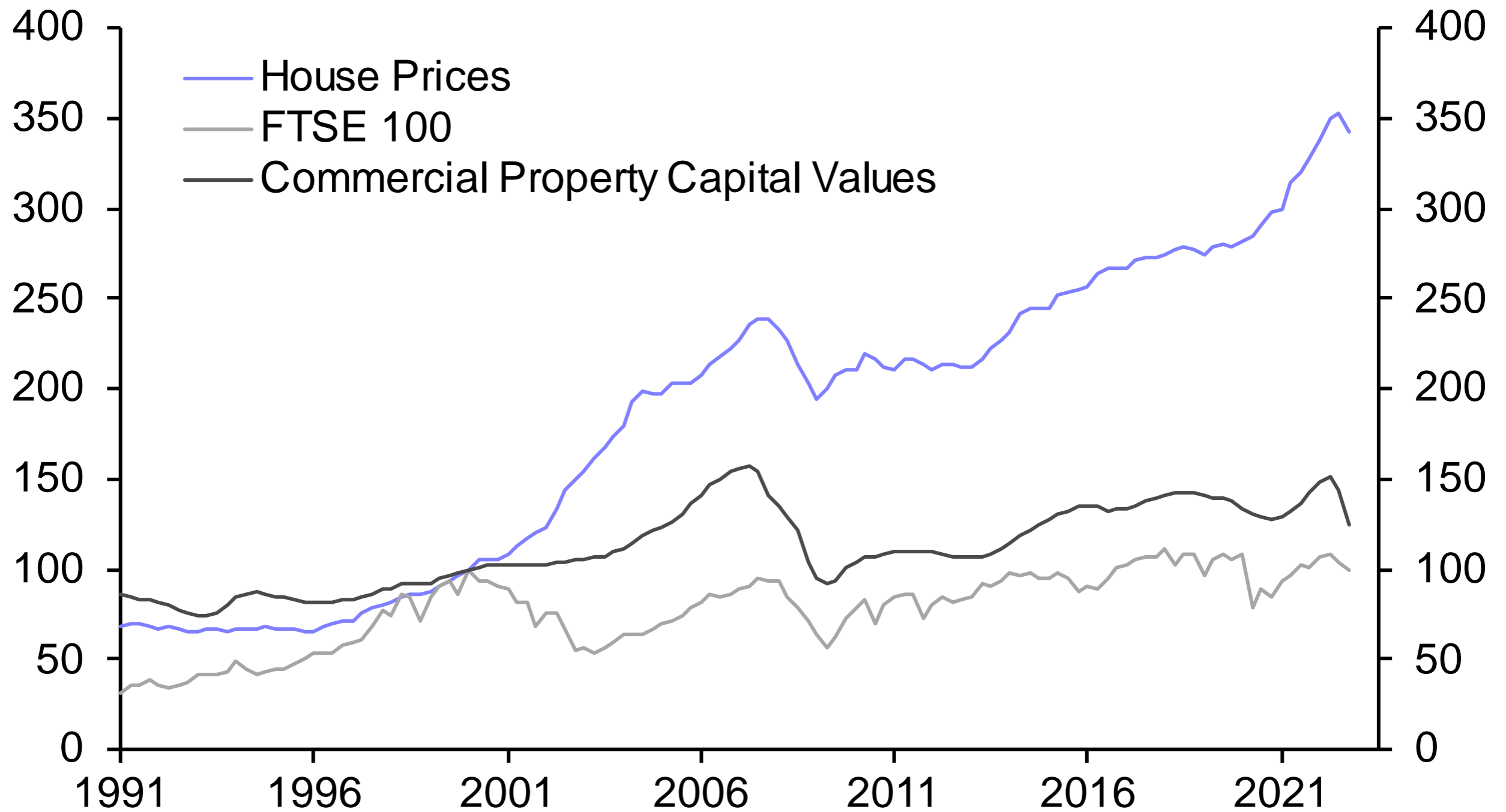
Sources: Refinitiv, Capital Economics

21. Income Yields (%)



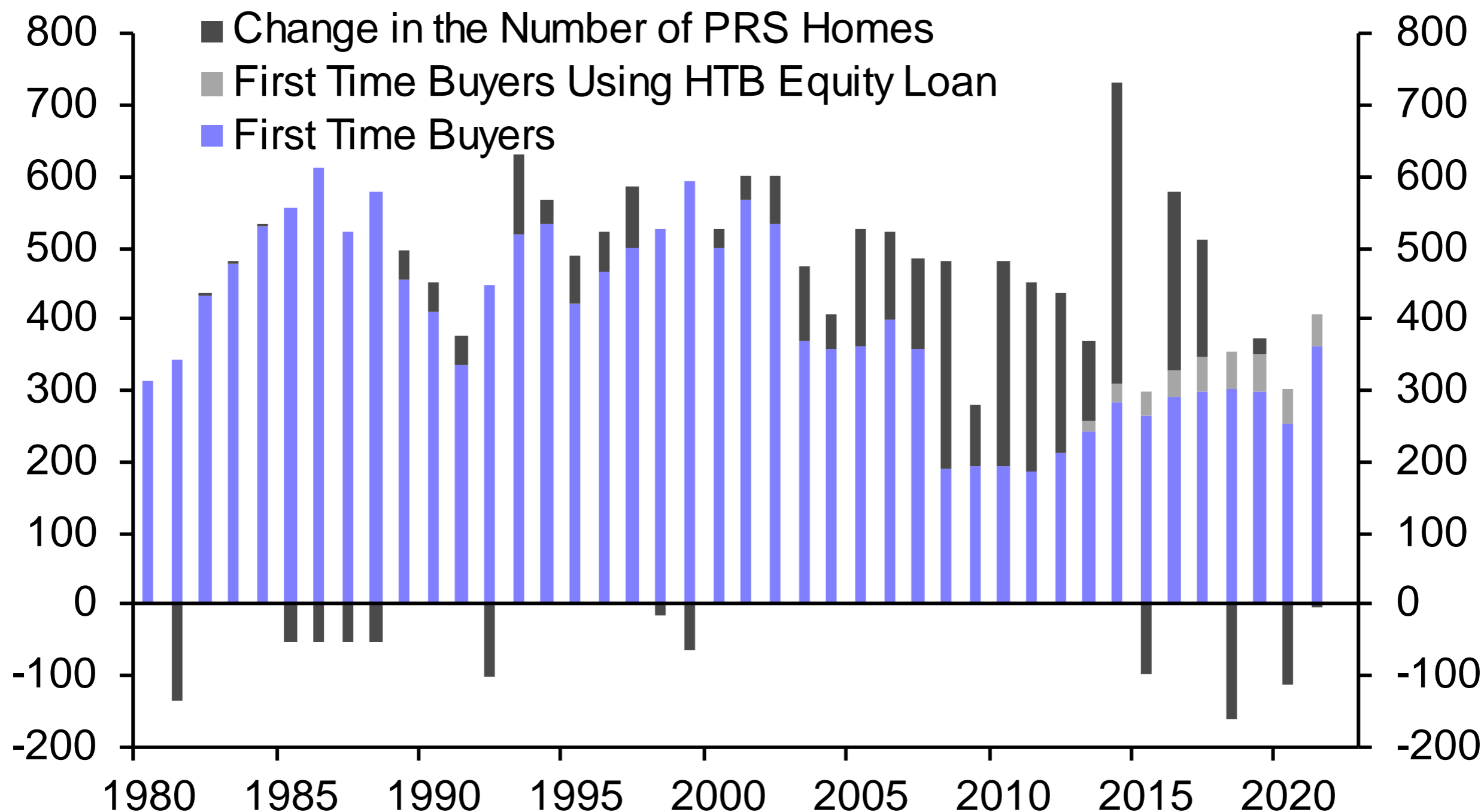
Sources: Refinitiv, Capital Economics

22. Asset Prices (Q1 2000 = 100)



Sources: Refinitiv, Capital Economics

23. A turning point in tenure? (000s home purchases/net disposals)



Sources: Refinitiv, Capital Economics

24. Conclusions

- Weaker economy and higher unemployment needed for 2% inflation.
- Risk is that interest rates rise above 4.50% and stay higher for longer.
- Central case – house prices fall by 7% on top of the 5% fall so far.
- A drop in mortgage rates is necessary to avoid a worse outcome.
- Strong demand and a possible contraction in BTL supply points to continued strong rental growth.
- Higher mortgage rates, low yields, and unfavorable policy likely to see shift in stock back from the rental sector to the owner occupier sector.





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