

Breaking Ground

Spring 2023



House price outlook: the short and the long of it

Welcome to the latest edition of Breaking Ground.

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Stability has continued to return to the UK's political and financial landscape in Q1. However, with inflation still stubbornly high, the Bank of England has felt compelled to raise the Base Rate further, piling pressure on many mortgage borrowers' finances and fuelling speculation that the residential housing market could be heading for a significant dip. Gráinne Gilmore, returning Wise Owl and Director of Research and Insights at Cluttons, is well accustomed to being asked what she thinks will happen to house prices, and I am delighted that she has shared both her short and longer answers with us.

If you have any feedback, or would like to discuss a proposal, please get in touch.

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House price outlook: the short and the long of it



Gráinne Gilmore, Director of Research and Insight at Cluttons, the property consultancy specialising in residential, commercial and infrastructure.

As all of us connected to the real estate industry know, when you're out and about the most common follow-up question to "what do you do?" is "so what's going to happen to house prices?". Given the rapidly changing economic and fiscal picture, my quick response has been something like "it depends where you are, but prices will start to ease back after some very strong growth - it's a more challenging market now than the last few years, but not as downbeat as we expected last October."

This is the short answer. Only the bravest would embark on a longer answer at a social occasion, but there is value in putting the current market conditions in context, helping us understand what's driving the market at present, and what that means for the housing market outlook.

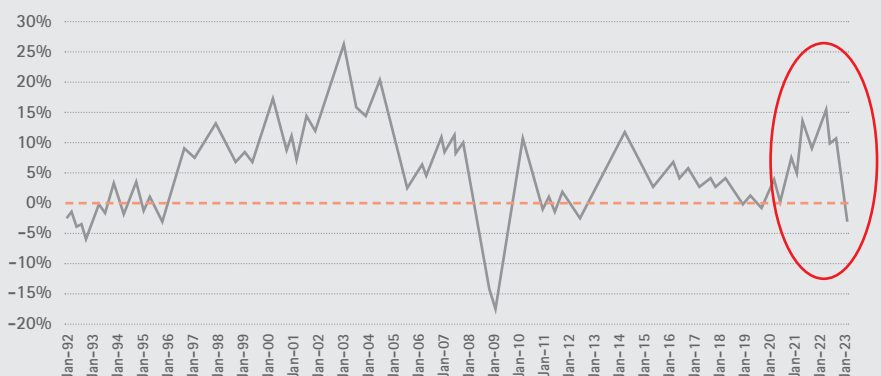
The economic backdrop has been changing over the last few months. Economists are now split on whether a recession is on the cards, but even so the outlook is not rosy - there will be limited economic growth this year, and households are still facing higher living costs. There is also some uncertainty around whether the shudders from the banking sector will remain contained, or spill over into a larger issue which could impact the wider economy.

Inflation is expected to fall rapidly this year, but there was a wobble when official data showed that it ticked up again in February. This will have provided more cause for an 11th consecutive interest rate rise by the Bank of England's Monetary Policy Committee in March, taking the base rate to a 14-year high of 4.25%.

Higher base rates signal higher mortgage rates, and buyers and homeowners coming to the end of fixed-rate deals have absorbed a four percentage point jump in the cost of home loans since the start of last year. For those of us who remember high single digit and even double-digit mortgage rates in the 1990s and early 2000s, this rise might still look modest. But the stretch in the affordability of housing in the UK since then means that even smaller rises in mortgage rates have a larger impact on budgets than 20 or 30 years ago.

The housing market between Q3 2020 and Q3 2022 could not be described as a 'normal' market. Super-charged might be a better word, fuelled by lockdowns, working from home and the stamp duty holiday. This resulted in sharp rises in prices, especially for

Annual house price growth



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houses with outside space.

Buyer demand has fallen back since then. But when you compare it with demand in 2018 and 2019 it matches up, signalling that the market has moved back to pre-pandemic norms for now. Sales activity is also more in line with pre-pandemic trends, with deals quicker to move where there is negotiation on both sides around pricing. The latest data from Zoopla signals the market is in line for just over half a million transactions in H1, around 40,000 fewer than 2019 levels, but significantly higher than levels after the global financial crisis.

Nationwide's latest house price data shows that the average UK house price is already down 3.1% on the year - and Cluttons are forecasting an 8% decline in mainstream prices this year. Even so, most sellers will still be in the black when they move, given the strong rise in values in recent years.

One of the exceptions to these trends was city centre flats which lagged the wider trends as the focus was on access to outside space. However, demand is now swinging back into these markets, with some buyers seeing value.

As we gear up for the Bank of England's next base rate decision, it's worth noting that this will not necessarily translate directly into higher rates as the money-market rates which determine fixed-rate home loan pricing have been falling in recent months, in some part reflecting the resumption of political stability. This means the impact of the latest rate rise was muted, and the same could happen with any future rise, barring any surprises.

So, in short: "depends where you are, more challenging conditions and prices will fall back a bit, but more in line with markets before the pandemic".



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Looking up for new opportunities

With suitable ground sites becoming harder to find in our crowded cities, developers are increasingly looking up for new opportunities. UTB's Jonathan Nail spoke to accountants Kreston Reeves about what lenders look for when asked to fund 'Airspace' developments.



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Paul Turton – Director of Business Development and Marketing, Property



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Our lending specialists will be heading to the forum in Leeds. To arrange a meeting and to find out more scan the QR code.



UTB Wise Owl Developer Networking Lunches

The UTB Wise Owl Developer Networking Lunch programme is a series of gatherings attended by developers, housebuilders and property investors from across England and Wales.

Guest speakers cover a broad range of themes from politics in property, cracking the MMC conundrum, bringing listed buildings back into commercial use and the residential renaissance of the high street, together with regular insights on both the supply and demand sides of the housebuilding industry.

New speakers are added regularly and include Steve Norris – Chair of Soho Estates, Lucian Cook – Head of UK Residential Research at Savills, Harry Swales – Chief Investment Officer at Homes England, property journalists and authors Peter Bill and Jackie Sadek, Richard Auterac – Chair of real estate auction house Acuitus, and Grainne Gilmore – Director of research and insights at Cluttons.

Please speak to me if you would like to attend an upcoming lunch, or if there's a particular subject you would like to see covered at future events.



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