Bull & Bear

St. Bride's Managers

A Mortgage Review

Bull: Crikey, Bear. You look angry. What's wrong?

Bear: Have a guess. Two words.

Bull: 'The weather'?

Bear: Good guess, but no. Try again.

Bull: 'Tottenham Hotspur'?

Bear: Another good guess. Perhaps later. But no. It is 'Liz Truss'.

Bull: Liz Truss? Seriously?

Bear: Yup. Everywhere I go, every TV channel, every social media platform, every newspaper, there is Liz plugging her new book, "Ten Years to Save the West". She was in the US this week, like so many minor British celebrities before her, trying to catch the eye of the Americans.

Bull: I spotted that. Didn't she say something along the lines of "I like to think of the United States of America as Britain's greatest invention". That's a bizarre form of flattery!

Bear: And from what I gather, there has still been no apology for the complete carnage she caused to the markets eighteen months ago. That's why I am so angry. It's like she doesn't care or recognise the impact of her actions. I am just so pleased that only 2,228 copies of her book sold here in the UK during its first week on sale, despite a wall-to-wall promotional media blitz. It has been outdone by titles such as the 'Ultimate Air Fryer Cookbook' and 'More Confessions of a Forty-something **** Up!'

Bull: Wowzers, Bear. I haven't seen you this worked up for quite some time.

Bear: That may be true, but I don't get why she has refused to apologise to all the UK homeowners for the higher mortgage rates they have had to stomach following her mini-Budget. Rather, she has blamed the Bank of England and the Office for Budget Responsibility for the way the markets reacted.

Bull: And she also countered the accusation of blame by saying that interest rates had been too low for too long and that mortgage rates have gone up all across the world, not just in the UK.

Bear: She may have a point there. But her dim-witted actions certainly accelerated things. I've done my research. On the day of the mini-Budget, the average two and five-year fixed rates stood at 4.74% and 4.75% respectively. By the following Friday, they had risen to 5.17% and 5.1%. They kept climbing until the average two-year fixed rate hit 6.65% on 20 October 2022.

Bull: I hear you, but the Government did reverse most of the measures in its next Autumn Statement and mortgage rates then started declining.

Bear: They had no choice! But why are you being so soft on her? She didn't inform the Bank of England about her plans in the mini-Budget, as UK Governments typically do before fiscal events. And, she sparked a meltdown across UK financial markets. If Labour wants to win the next general election, they could do a lot worse than keep Liz Truss in the news!

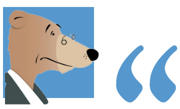
Bull: Come on Bear. Let it go. We've always been told by St Bride's to avoid politics in our discussions. I don't want to lose this cushy gig quite yet! I'm assuming as part of your research you've also been monitoring the current state of the residential mortgage market.

Bear: I sure have. My current fixed rate comes up next year and I need to plan ahead. I think the market can best be described as a bit of a rollercoaster. At the start of this year, mortgage rates dropped sharply, only to later start creeping back up. During recent weeks the market has been relatively calm, but last week's smaller-than-expected drop in inflation in March has caused some economists to push back their forecasts for when the Bank of England will start to trim back rates.

Bull: So, are mortgages on their way back up again then?

Bear: Not universally, but it does look like most lenders have adjusted their positions in response to market uncertainty. Barclays, HSBC, NatWest, Accord and Leeds Building Society all informed mortgage brokers this week that they were going to be upping rates on some of their mortgage deals. Moneyfacts, the financial data provider, said on Tuesday that the average rate on a new fixed-rate deal lasting for two years had nudged up slightly to 5.83% – from 5.8% at the start of this month. Meanwhile, the typical rate on a new five-year fix stands at 5.4%, up from 5.38% at the beginning of April.

Bull: That doesn't sound good at all. Surely any fresh mortgage rate increases will only continue to stifle house buying activity?



Bear: Maybe, but according to Foxtons, there has already been a notable uplift recently in the volume of sales enquiries, viewing requests and the number of offers being submitted.

Bull: And I also saw that the number of mortgage approvals rose in February to the highest level since September 2022. Apparently, there were more than 60,380 approvals. And sticking with the positive news, UK house prices also rose 1.6% on average from March 2023. That was the fastest rise since December 2022.

Bear: I can accept all that, but in typical fashion, you have failed to mention that UK house prices fell by 0.2% during the month of March. Affordability constraints continue to be a real challenge for prospective buyers.

Bull: Agreed, but UK house prices have shown surprisingly strong resilience in the face of significantly higher borrowing costs over the last eighteen months. And, what's more, I was left with a warm glow having read Savills' research which was released on Thursday.

Bear: What were their main findings?

Bull: They are seeing more and more buyers returning to the market, which is good news. And in the rental market, where demand has significantly outweighed supply for the last three years, they are seeing a gradual shift back to more seasonal patterns.

Bear: I read in the papers that UK rents rose at a record pace of 9.2% over the last twelve months (to February 2024), with the jump in average private rents in the year to March marking the biggest annual percentage change since the Office for National Statistics began collecting data in 2015. Did Savills' report cover the Prime Central London Residential Market? With the team from St Bride's again heading out to Singapore in a couple of weeks' time, they are bound to be asked by prospective investors how that particular market is performing.

Bull: They sure did. Savills reported that London's prime residential markets have shown signs of recovery in the first quarter of 2024, having bottomed out at the end of last year. In prime Central London, while values remained broadly flat (0.1%) in Q1, this represented the first positive quarterly price movement since mid-2022. Values are now down by just -0.6% over the past year and by a total of only -1.2% since the mini-Budget in September 2022.

Bear: Interesting. That is better than I was expecting. But I suppose this part of the market has been less dependent on mortgage debt than others, meaning that it should be resilient.

Bull: Quite right, but any political uncertainty created by the upcoming general election and the plans to abolish non-domicile status, as announced in last month's Budget, will inevitably mean that house buyers are likely to remain hesitant.

Bear: I thought I was supposed to be the cautious one between us!

Bull: You are! Anyway, activity right across the London markets has also picked up this year, with agreed sales across all price bands (net of fall-throughs) some 24% higher in the first quarter than the same period last year, according to TwentyCi data. Activity by this measure was also 15% above the pre-pandemic level, highlighting that demand is now exceeding historic norms.

Bear: Did they provide any longer-term forecasts? They usually do.

Bull: Yes. They are predicting a more pronounced recovery once mortgage rates start to fall, whenever that may be, but their headline forecast is 18.70% growth in the five years to 2028 for prime Central London and 17.4% for prime Outer London.

Bear: That sounds very encouraging. Is it a similar story for the whole of the UK?

Bull: Almost identical. Overall, they are expecting prices to continue improving as we enter the Spring market, recovering over the medium term, with price growth of 18.6% in the five years to 2028.

Prime regional forecasts

	2024	2025	2026	2027	2028	*5 years to 2028*
Prime central London	0.0%	3.5%	6.0%	4.0%	4.0%	18.7%
Outer prime London	-2.0%	2.5%	4.5%	6.0%	5.5%	17.4%
Suburbs*	-2.5%	2.5%	4.0%	6.0%	5.5%	16.2%
Inner Commute**	-2.0%	2.5%	4.0%	6.0%	5.5%	16.8%
Outer commute†	-1.5%	3.0%	4.5%	6.0%	5.5%	18.6%
Wider South	-1.5%	3.5%	4.5%	6.5%	5.0%	19.1%
Midlands / North	-1.0%	4.0%	5.5%	7.0%	4.5%	21.5%
Scotland	-1.0%	3.5%	5.5%	7.0%	4.5%	20.9%
Wales	-1.0%	4.0%	5.0%	6.5%	4.5%	20.3%
All prime regional	-1.5%	3.0%	4.5%	6.5%	5.0%	18.6%

Source: Savills Research

Note: *Within the M25 **Within a 30-minute commute †Within a one-hour commute. These forecasts apply to average prices in the second hand market, new build values may not move at the same rate.

Bear: I like what you are telling me, Bull. All the signals appear to be suggesting that we are approaching the end of the housing market correction.

Bull: Let's hope so. And let's finish on that relatively positive note, shall we? I need to make a move to get up to the North London Derby to hopefully watch Arsenal's title campaign come to a crushing end!

Bear: Come on you Spurs!