Residential
Market Report
November 2021

NEXAPROPERTIES.COM

KEY STATISTICS
UNITED KINGDOM

Average UK property price
£344,445

Average UK property price
increased 6.6%

UK residential transactions
67.5% higher than August 2020

Number of
sales agreed up 15.2%

Over £473bn of
new sales agreed

Time on market remains
under 30 days

RESIDENTIAL MARKET OVERVIEW

Previous predictions across the industry forecasted a drop in demand and price as we reached the end of the Stamp Duty holiday but instead, we have seen a record year for sales and house price inflation. The highest since 2007 with £473bn new sales agreed, 2021 was an incredible £95bn higher than last year.

Similarly, for the first time since March 2007, all market sectors and all regions in Great Britain have hit new record price highs in the same month. Fuelled by the continued lack of demand and window of opportunity to buy before a potential interest rate rise, the active market has overcome the expiration of all stamp duty incentives.

What's in store for 2022?

Currently, 22% of people want to move compared to this typical 5% seen a 'normal' market. With demand from potential buyers running at 30% above the five-year average since the summer, we are expecting to see this continue into 2022 and the anticipated 'cliff edge' of the property market is nowhere in sight.

The surge in equity homeowners alongside the shortage of homes is likely to ensure the house price growth will continue well into 2022, although it is expected it will slow to around 3% instead of the 6% we are currently experiencing.

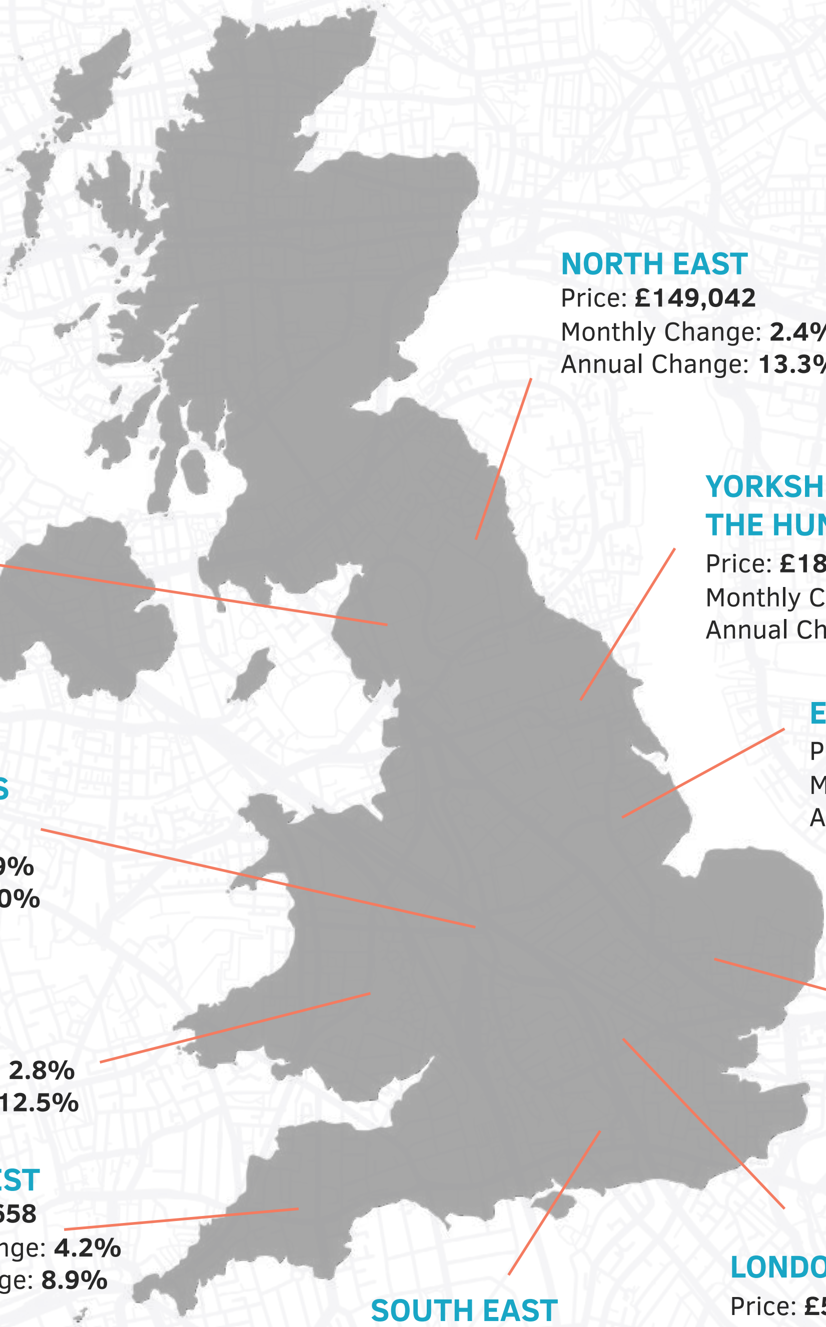
This year's incredible transaction rate is also predicted to slow, falling to approximately 1.2 million in line with the long-running average.

TRANSACTIONS

Key statistics:

Month and year	Non-seasonally adjusted	Seasonally adjusted
September 2012	74,390	75,880
September 2013	93,680	92,940
September 2014	105,170	101,060
September 2015	109,160	106,070
September 2016	105,400	95,750
September 2017	108,350	100,920
September 2018	97,060	99,590
September 2019	99,560	98,880
September 2020	99,070	95,590
September 2021 (Provisional)	165,720	160,950

REGIONAL OVERVIEW



NORTH EAST
Price: **£149,042**
Monthly Change: **2.4%**
Annual Change: **13.3%**

YORKSHIRE & THE HUMBER
Price: **£185,968**
Monthly Change: **1.5%**
Annual Change: **8.8%**

NORTH WEST
Price: **£194,821**
Monthly Change: **4.5%**
Annual Change: **12.4%**

EAST MIDLANDS
Price: **£221,693**
Monthly Change: **2.7%**
Annual Change: **10.3%**

WEST MIDLANDS
Price: **£228,593**
Monthly Change: **2.9%**
Annual Change: **11.0%**

EAST OF ENGLAND
Price: **£324,510**
Monthly Change: **2.9%**
Annual Change: **9.6%**

WALES
Price: **£194,575**
Monthly Change: **2.8%**
Annual Change: **12.5%**

SOUTH WEST
Price: **£288,658**
Monthly Change: **4.2%**
Annual Change: **8.9%**

LONDON
Price: **£525,893**
Monthly Change: **5.6%**
Annual Change: **7.5%**

SOUTH EAST
Price: **£358,070**
Monthly Change: **1.9%**
Annual Change: **8.7%**

Are house prices set to fall?

The stamp duty tax holiday is over, furlough finished at the end of September, unemployment is due to rise and inflation is rife… Is this the end of the post lockdown property boom? Surely, we are heading for house price correction?
Forecasting what will happen in the property market this Autumn may not be as simple as it first appears.

It's true the property market is starting to settle down after an all-time number of property deals were completed in June.

More people will have moved home in 2021 than in any year since 2007, with an estimated 1.5 million homebuyers nationally having bought a property.

Roll the clock back to last Christmas, and the Government's Office for Budget Responsibility projected that national house prices would drop between 6% and 8%.
Let us not forget there were so many ambiguities at the start of 2021. We were about to start a 5-month lockdown, hospitals were bursting at the seams with patients, the vaccines hadn't started, 4 in 10 employers had furloughed their staff and we had just had Brexit… Things didn't look good.

Yet, nothing could be further from the truth 10 months later – the property market has been on fire. But after a heated summer in the property market, things certainly can't carry on as they have been since the end of lockdown.

So, where are we with the property market as it stands? Taking reference from historical data on the website The Advisory, over 70% of properties on the market today are sold subject to contract.
There are not so many uncertainties as there were at the start of 2021. On the good news front, 49 million Brits have had at least one jab (45m two jabs) and the UK will be the world's fastest-growing advanced economy this year according to the IMF.

Conversely, the furlough scheme ended at the end of September and with energy prices going through the roof, a real shortage of homes for sale (as we have discussed a number of times in recent blogs) and rising inflation on the back of a shortage of raw materials and trained staff, forecasting this and what will happen to house prices might not be as easy as it seems.

Will homeowners face a post-lockdown mortgage rate rise?

With grocery, energy, and other household prices/costs rising and hitting everyone's back pocket, inflation (rising prices) may feel like an unimportant issue when it comes to the cost of keeping a roof over your head.

Yet nothing could be further from the truth for many homeowners and landlords.

Because inflation over the long-term is bad for the economy, the normal weapon of choice to reduce inflation is to increase interest rates. The Bank of England (BoE) is in charge of interest rates.

Should inflation continue to rise, there will come a point later in the year when the BoE will need to raise it's Base Rate from its 300-year record low of 0.1%, and probably continue to do so with a series of further increases in 2022.

When interest rates go up, the cost of mortgages go up. When the cost of mortgages go up, that hits the affordability of what people can borrow to buy their homes (and landlords to finance their buy-to-let properties). forecasting this and what will happen to house prices might not be as easy as it seems.

Could it be the end of the house price boom?

The danger of a base rate rise by the BoE on the back of a rise in inflation over the last few months has alarmed banks and building societies into increasing the mortgage rates for both home buyers and landlords.

In the last week alone, lenders have increased the rates (i.e. prices) of their mortgages, some mortgages by more than one whole percentage point. That doesn't sound a lot until you punch the numbers into a calculator (more of that later).

Property buyers (be they landlords or homebuyers) have relished months of cut-price cheap mortgages rates.

Mortgage lenders have played the big game in the last 12/16 months to capture the mortgage business of 1 million+ Brits that have moved home since the end of Lockdown-1 plus the many millions of re-mortgages, with the cheapest mortgage rates falling below 1%.

Yet, the money markets have already priced into their calculations that the BoE will increase the base to 0.25% by December, up from the existing 0.1%. They also anticipate a further two-quarter point (i.e. 0.25%) rise in the spring of 2022, meaning they believe the base rate will be 0.75% by the end of summer 2022.

The mortgage price war the banks and building societies have been fighting recently has resulted in falls in the month-on-month average mortgage rates available to borrowers. The economy is awash with cash looking for a home (mainly down to the Government's and BoE's intervention to keep the UK economy going during lockdown). For those with large deposits, this has meant mortgages have been available at less than 1%.

However, with reports of a potential BoE interest rate rise happening soon, those homeowners who are on a variable rate mortgage are probably going to be the first who would feel the influence of any Base Rate increase.

What does this mean for mortgage rates?

This could mean homeowners with variable-rate mortgages would be spending half their salary on their mortgage should interest rates get up to these levels.

Now the BoE won't increase rates by that amount overnight, as that would spook the market. They will probably increase every few months by a quarter of one percent each time.

A further message to the 1 in 5 (ish) homeowners on a variable rate – please take some advice from a qualified mortgage advisor as well. Mortgage rates can't get any lower and all the signs are showing they will be going up. The mortgage market is still extremely competitive, there is opportunity for borrowers to lock in ultra-low mortgage rates before any likely Base Rate increases filter through.

The early 1990s saw repossessions go through the roof as homeowners defaulted on their mortgage payments because of the increased mortgage rates. Also, in the run-up to the Credit Crunch in 2008, Northern Rock was lending 125% of the value of the property (we all know what happened to them!). Other banks were recklessly lending 8 or 9 times a person's income, without the person having to prove that income. Both scenarios were significant contributory factors in the housing market crash.

Thankfully in 2014, the BoE implemented the recommendations of its own Mortgage Market Review (MMR). The MMR forced banks and building societies to stress test mortgage borrowers against potential increases of the base rate of up to 3%. Thankfully, even the most hardened monetary doom-mongers aren't contemplating base rates of those levels.

Fundamentally, as we go into 2022, the housing market is built on decent foundations, unlike in 2007 with the poor lending practices by the lenders. Yet the increase in base rates will have another influence.

The psychological factor of a perceived increase in mortgage costs might be enough to cool the enthusiasm and excitement of many buyers to pay top dollar for their next home, and that might not be a bad thing. If I am being frank, we could do with something that takes a bit of fizz out of the housing market.

Many homeowners have been wary of putting their houses on the market because they are scared they won't be able to find another home. A slight increase in Base Rates will take the frothiness out of the property market and return it to some form of normality. I would even go as far as to say house prices might ease back ever so slightly in the coming 12 to 18 months.

Don’t be alarmed if house prices in do drift slightly over the coming years like they did in the mid 1990s.

It’s just the property market settling down and coming back into some form of equilibrium, which is good for everyone.

The mortgage lenders have already priced in the potential BoE rate rises, so even if rates do rise, let’s not panic. And even if they did rise to 3%, that would still leave them at levels that look exceedingly cheap at any other time in history. Many homeowners in their 50’s and 60’s can remember mortgage rates of 15% in 1992, so take advice from your family. (Interestingly, the 50-year BoE Base Rate average is 7.2%).

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