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Bespoke Specialist Lender

MFS Insights:

How has the UK property market fared in 2023 so far?

Trustpilot

As the first three months of 2023 draw to a close, now is an opportune moment to reflect on the performance of the property market so far this year.

The war in Ukraine, the cost-of-living crisis, and the fallout of the mini-budget in September 2022 all contributed to a significant amount of political and economic uncertainty over the past 12 months. At the start of the year, therefore, many predicted that house prices were going to fall substantially.

However, when one considers how much of an impact these economic challenges could have had on the UK property market, the sector has remained remarkably stable.

As we enter the second quarter of the year, this Market Financial Solutions (MFS) report will delve into how the property market has fared since the start of the year, the current state of play, and what the coming months may bring.

Calm after chaos

The final four months of 2022 were dominated by Kwasi Kwarteng's ill-conceived plan to boost the economy. In the days following the notorious mini-budget, the pound **fell to record lows**, the cost of government borrowing **rose sharply**, and the gilt markets were sent into overdrive, with long-term yields rising by **0.5%** on the day that Kwarteng addressed parliament.

The fallout was as dramatic as it was swift. In the weeks after, then Prime Minister Liz Truss and Chancellor Kwarteng lost their jobs, with Rishi Sunak and Jeremy Hunt chosen to stabilise the economy.

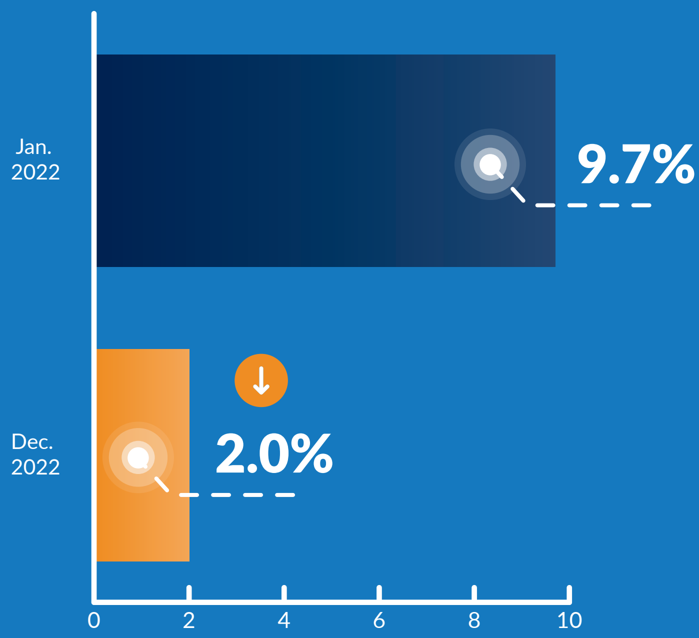
For many economists, however, the damage was done. The uncosted decision to slash taxes and ramp up borrowing looked set to 'deepen' the UK's recession. Indeed, the Bank of England warned the recession would be the UK's longest in **100 years** at its November meeting.

For the property market, the fallout from the mini-budget accelerated a rise in mortgage rates, making purchases unaffordable for many. **House prices fell** by their largest monthly amount since the start of the pandemic, while new buyer inquiries dipped by **38%**, and new house sale instructions **declined**. Consequently, **the rate of annual house price growth fell** from 9.7% at the start of 2022 to 2% at the end of the year, according to Halifax.

The Office for Budget Responsibility (OBR) predicted that **house prices would fall by 9%** between the end of 2022 and the third quarter of 2024. Meanwhile, some economists suggested that house prices would need to fall by **20%** to become affordable after the cost of borrowing increased further in January.

This context is important. Amid all the widespread negative speculation, the actual performance of the property market over the first three months of the year has been noteworthy.

The fallout from the mini-budget resulted in new buyer inquiries dipping by 38%



The rate of annual house price growth from the start of 2022 to the end of the year

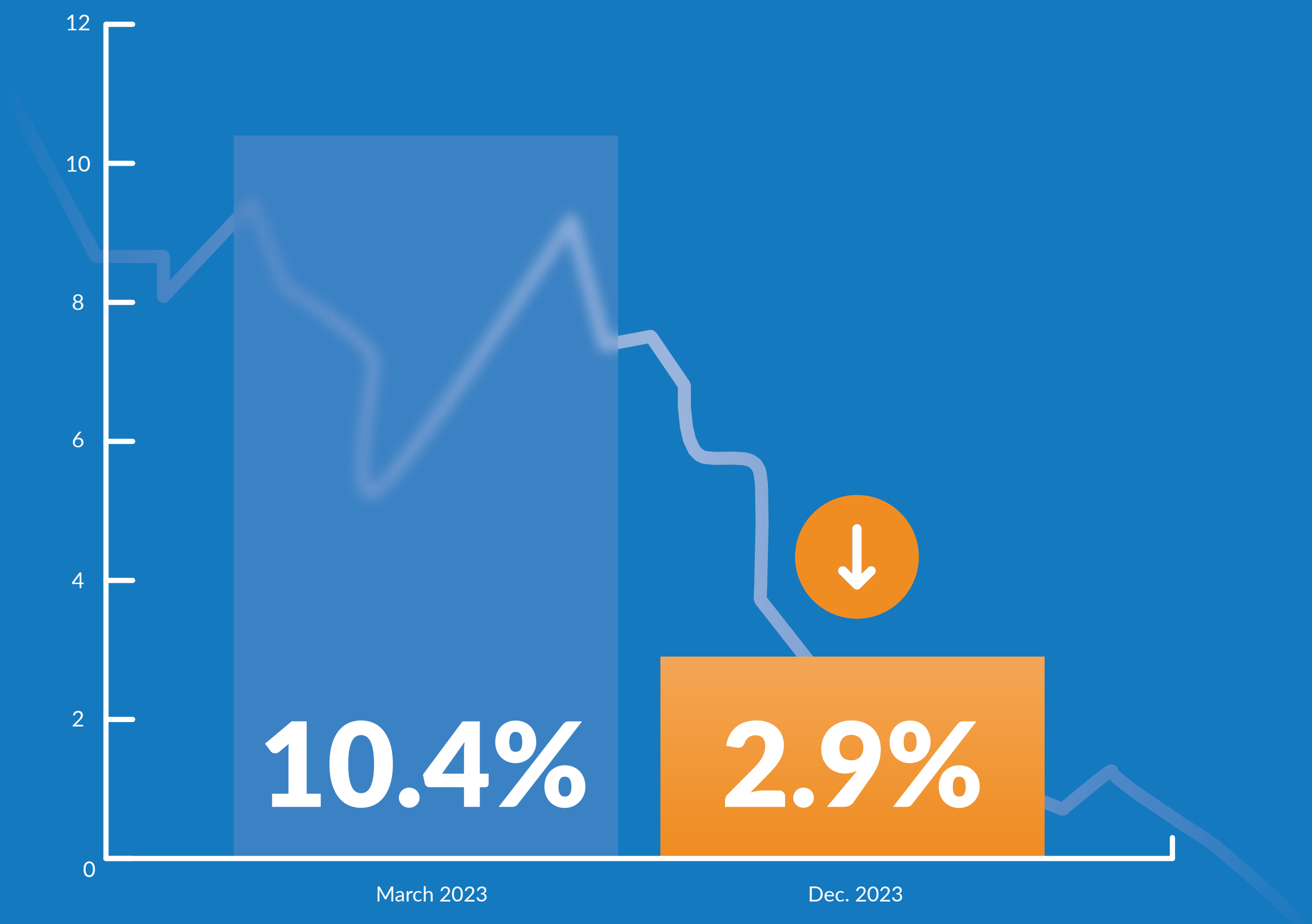
The UK will now avoid **recession in 2023**

According to **Jeremy Hunt's Spring Budget** – the UK is set to avoid a technical recession in 2023, despite **previous predictions** from the OBR.

It seems Jeremy Hunt's prudent approach to managing the economy has managed to settle the markets. This stability can only be good news for the UK property scene.

Indeed, following the announcement of the Spring Budget on 15 March, the **OBR** now expects inflation in the UK will fall to 2.9% by the end of the year. This could ease some of the affordability issues that have held buyers back over the past year.

Similarly, with the base rate expected to peak at **4.25%** – much lower than past expectations of **5% – mortgage rates have started to decline** in recent months.



The expected inflation rate from March 2023 to the end of the year

Prices have softened, but the market is stabilising

While we're moving in the right direction, the property market is still reeling from some of the challenging economic headwinds that have dominated the last year.

House prices, for example, have softened in recent months. According to **Halifax's** house price index, prices are flat compared to three months ago, despite a 1.1% rise through the month of February. In cash terms, it is estimated that prices are down by an average of **2.9%** on their record highs from August 2022.

Activity levels have also been subdued compared to pre-pandemic levels. According to January's HMRC Property Transaction data, for instance, the number of residential transactions fell by **7%** compared to January 2022. For non-residential properties, transactions declined by **1%**, compared to 2022's data.

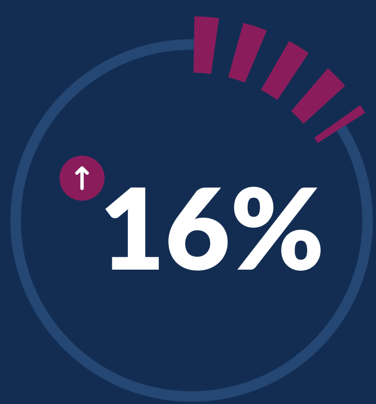
But, again, there are signs that the market has started to stabilise in 2023.

At the start of the year, for instance, **Rightmove** data showed that compared to the relative 'normality' of 2019, sales were down by just 15%. Following the mini-budget, when the number of sales dropped by **30%**, that is a notable recovery. What's more, the number of people contacting agents rose by 11% in early February, compared to same period in 2019.

Similarly, the **Royal Institute for Chartered Surveyors (RICS)** suggested buyer demand improved by 16% in February. This is remarkable, given declines of 45% seen in January.

We expect the market to continue stabilising, so long as lenders remain resilient in the face of further inflation or interest rate hikes. Considering that the **markets have already priced in another base rate hike** over the coming months, this looks increasingly likely.

The number people contacting agents rose by 11% in early February, compared to same period in 2019



Buyer demand improved by 16% in February 2023

Opportunities *remain*

As the market calms, and economic turbulence lessens, opportunities are revealing themselves to landlords and property investors.

For buy-to-let (BTL) landlords, data from **HomeLet** shows that rental prices are now up £2,600 per year compared to their pre-pandemic levels. Clearly, as interest rates and living costs keep rising, the cost of buying a home is still too high for many. So, they are pressing pause on their purchasing plans, and maintaining demand in the private rental sector.

Indeed, **data** from Rightmove shows that 53% more people are enquiring about renting a property now than in 2019. But, there are 38% less rental properties available. Therefore, we expect demand for our BTL mortgages and bridging products to increase as landlords aim to capitalise on higher rental yields.

Additionally, there are some areas of the country – such as the prime central London market – where international buyers are supporting demand. Indeed, according to Carter Jonas estate agency, property was **25%** cheaper for foreign investors at the end of September 2022 than in June 2021 due to favourable exchange rates. As such, these international buyers could continue to fuel demand in some parts of the country.

Finally, opportunities should emerge for commercial property investors and developers. **Savills** has suggested demand for commercial property could rise in the months ahead, due to an undersupply of high-quality space. **Rents actually rose** for prime office and logistics spaces during the pandemic due to a lack of supply, despite the fact that working patterns had been so significantly altered. This **undersupply remains**, which could allow investors and landlords to attract higher rents and yields in the coming months.

£2,600

Rental prices are now up £2,600 per year compared to their pre-pandemic levels

53%

53% more people are enquiring about renting a property now than in 2019

38%

There are 38% less rental properties available now than in 2019

25%

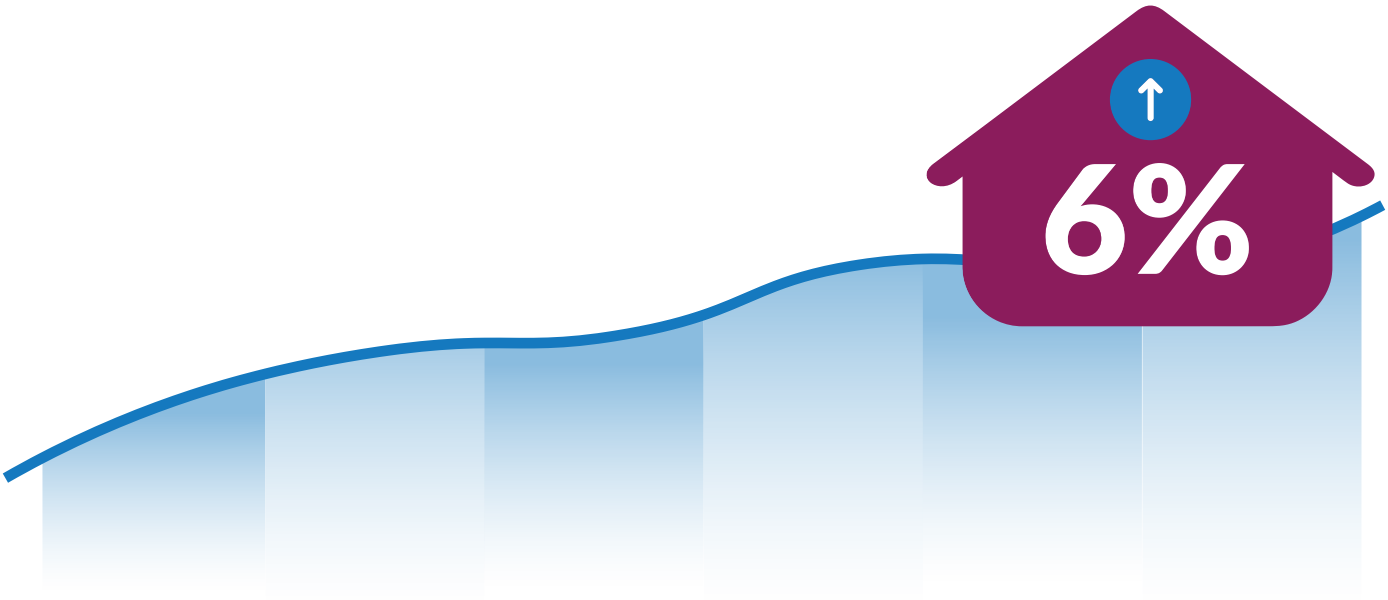
Property was 25% cheaper for foreign investors at the end of September 2022 than in June 2021

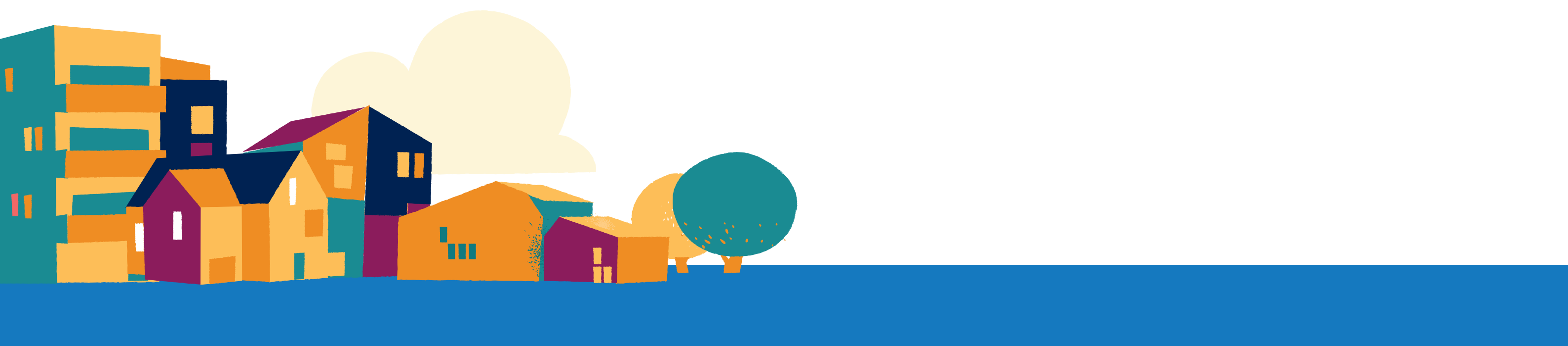
A readjustment to higher rates

What is clear is that while house prices and transactional activity have taken a hit in the last six months, the underlying supply and demand imbalance across the UK should stop the market from 'crashing' to the extent that was suggested at the start of the year.

A more convincing argument for the recent slowdown, therefore, is that this blip in house price growth is indicative of the market readjusting to higher rates after over a decade of a historically low borrowing costs. This is supported by **some estate agents**, who say that recent price falls will leave house prices at a similar level to mid-2021 at the end of the Stamp Duty holiday boom. A far cry from the catastrophic downturn that many suggested.

Therefore, with a sense of calm and stability returning to the economy, we should see activity levels and prices recover as inflation and mortgage rates come down. This view is corroborated by **Savills**, who see average house prices growing by 6% over the next five years should interest rates peak then ease by mid-2024.





Demand for specialist finance remains

If demand within the specialist finance industry is anything to go by, then MFS's productivity in 2023 is a good indication that the property market is alive and well.

The first three months of the year have seen a number of milestones for MFS. We announced that we had exceeded the milestone of lending against £1.5 billion of UK property assets; we unveiled 16 internal promotions and began searching for 11 new members of the team; we secured a new funding line worth £500 million from institutional investors to boost our BTL and bridging offers; and we have also launched a new variable rate bridging product, providing brokers and borrowers with significant optionality in the current climate.

This level of activity and funding shows that investors, brokers, and borrowers believe in the robust nature of the UK property market. Therefore, while the wider property industry is experiencing a slight cooling off period, there remains plenty of opportunities for landlords and investors keen to pursue them.

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