MFS
Bespoke Specialist Lender

MARKET FINANCIAL SOLUTIONS

Winners and Losers of the UK Property Market

MFS are a bridging loan and buy-to-let mortgage provider, not financial advisors. Therefore, Investors are encouraged to always seek professional investment advice.

Trustpilot

A difficult year, but one that presented opportunities

The more 2022 progressed, the more challenging the economic and political situation became. The war in Ukraine began, the UK government was sent into turmoil by a series of scandals, and the financial markets were sent spinning by the infamous "mini-budget" at the end of September.

Cost-of-living prices have risen by

The average prices of a home in the UK now stands at

£288,000

Through it all, inflation rose, triggering a cost-of-living crisis that has impacted on consumers, businesses, and investors alike.

Costs had already been rising as the world grappled with supply chain issues that created bottlenecks, which proved tricky to manage as the world reopened after the pandemic. But the start of the war in Ukraine sent inflation into overdrive. Prices have risen by an eyewatering **17.2%** in the last two years, and the consumer price index (CPI) has remained above 10% for seven months.

The Bank of England – in its fight to bring inflation down to its **2%** target – has hiked interest rates from 0.1% in December 2021, to 4.25% today, with the aforementioned mini-budget accelerating the rise. The base rate hasn't been this high since around **2008**, and a further 0.25% increase is expected in early May.

All industries have been impacted by the political and economic turbulence of the past 12 months. The UK property market is no exception.

With inflation eating into buying power, and interest rates increasing the cost of borrowing, residential property prices started to dip in recent months. Meanwhile, the **annual rate of price increases** has also decelerated after a period of remarkable growth.

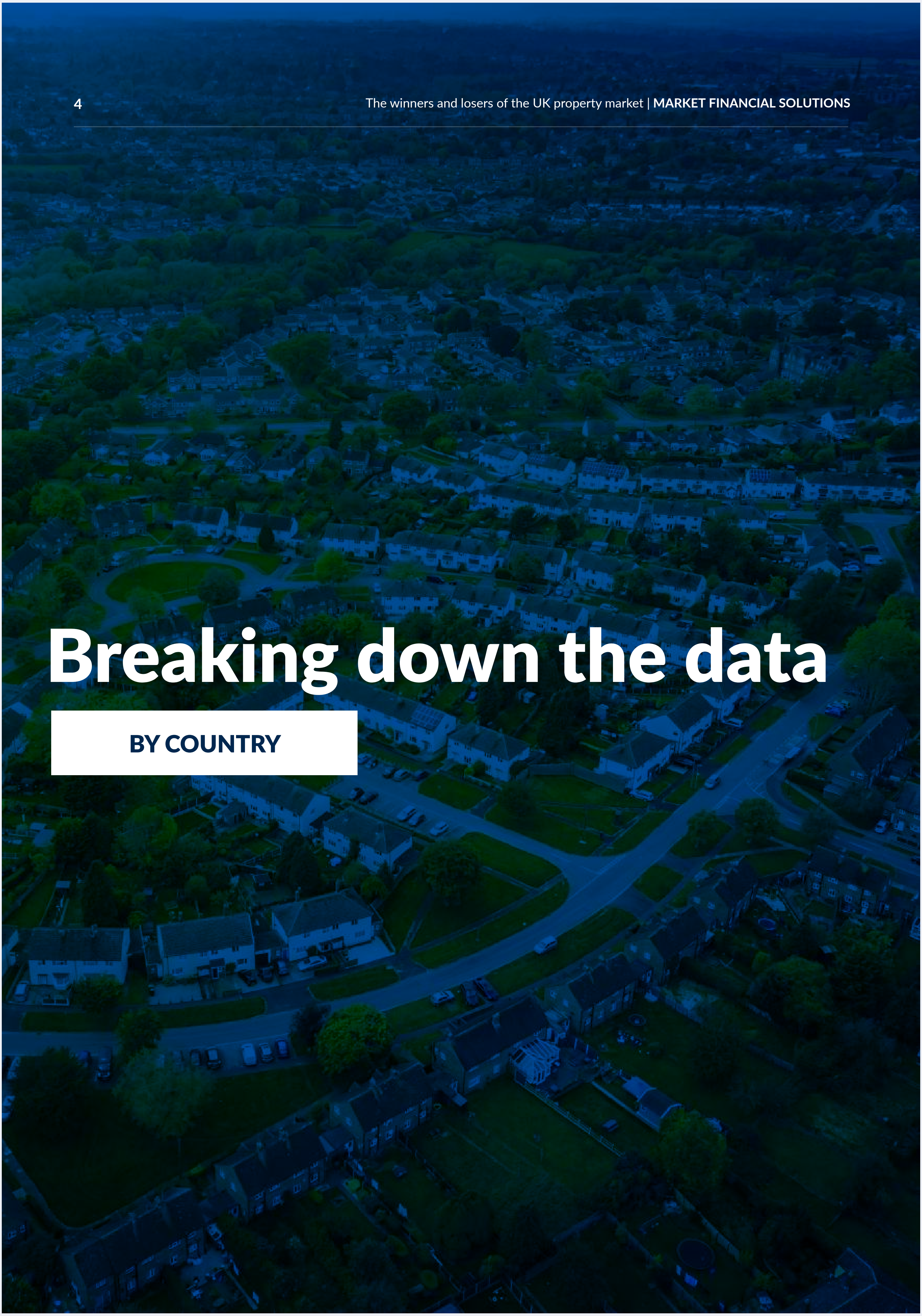
However, despite these difficulties, some analysts argue these slowdowns are simply temporary blips. Many believe the market is stabilising and adjusting to a new era of elevated interest rates. After all, if one compares house prices today to those before the pandemic, it is clear that much of the growth we witnessed during the stamp duty holiday remains.

For instance, the average house price in February 2020 – a month before the first lockdown – came in at **£230,000**, according to ONS. Fast forward three years, and the average price of a home in the UK now stands at **£288,000** – an increase of more than 25%.

This reflects how quickly the market grew during the pandemic, spurred on by a 'race for space' and the stamp duty holiday. It also illustrates how resilient real estate prices can be in the face of challenging economic headwinds.

However, nationwide statistics fail to tell the whole story. As with any sector, there will always be areas of the market that are under- or over-performing. With that in mind, this report will delve deeper into the data to explore which sections of the UK property market are bearing the brunt of the recent slowdown, and which areas are outperforming.

> **Many believe the market is stabilising and adjusting to a new era of elevated interest rates**

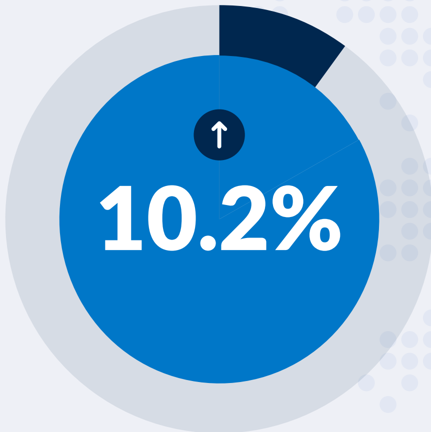


Breaking down the data

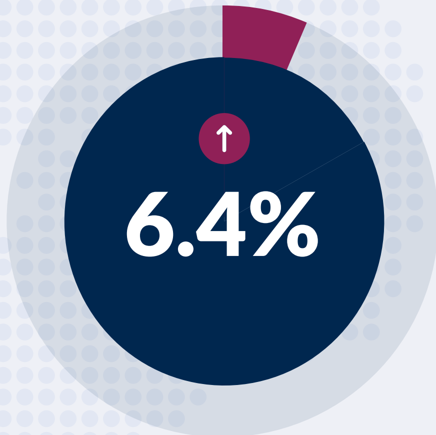
BY COUNTRY

"England clearly still provides the best potential appreciation of value when it comes to making a property investment in the UK

Northern Ireland has enjoyed the highest increase in house prices, from December 2021-22, with an annual rate of increase of



The Welsh property market rose in the last 12 months by



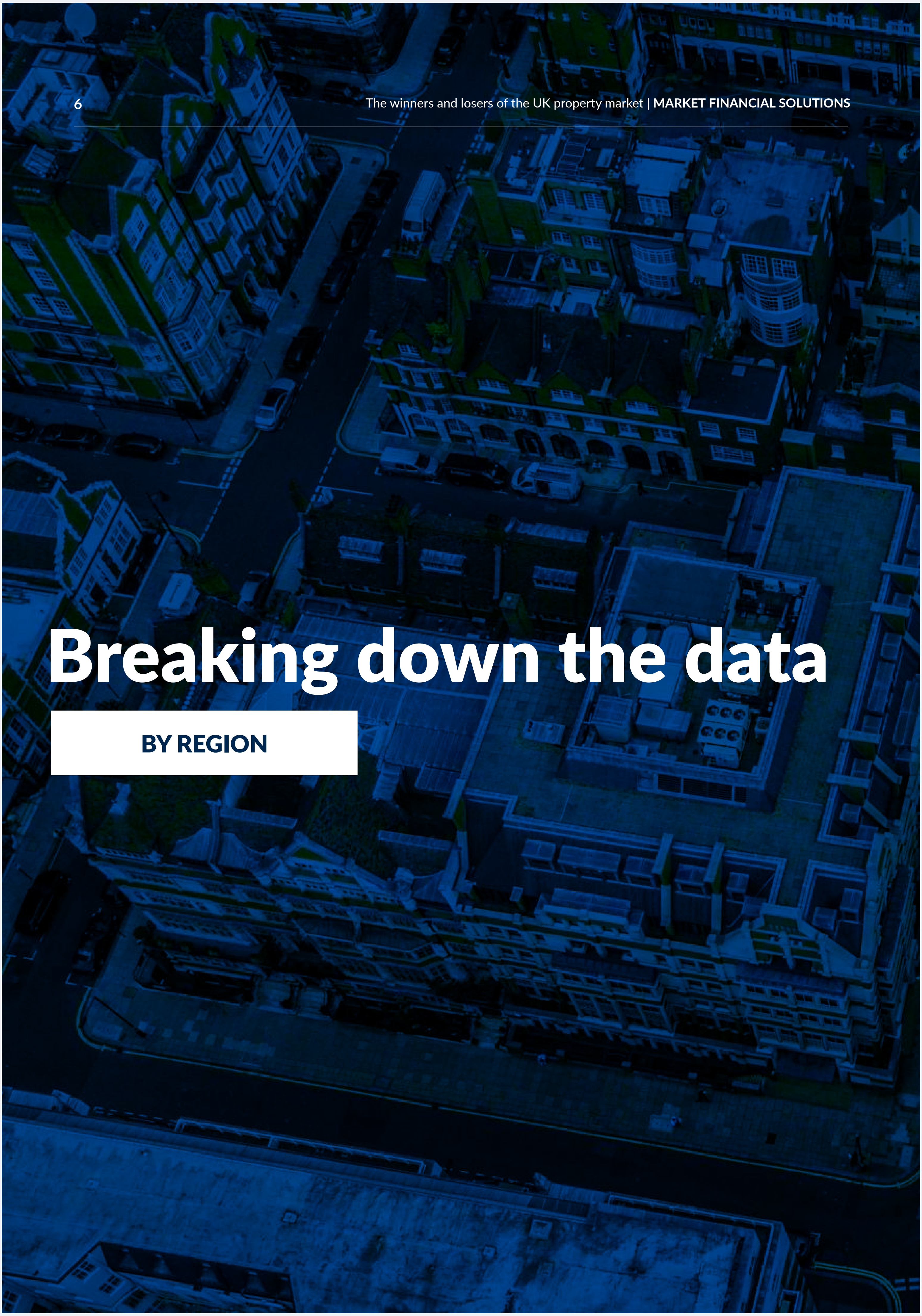
If we look at the data in more depth, it is clear there are stark differences between how property investments are performing in the different countries that make up the UK market.

For example, at face value, the property market in Northern Ireland has enjoyed the highest increase in house prices with an annual rate of increase of 10.2%. However, it is worth noting that Northern Ireland's data covers the 12 months up to December 2022, while the data for Scotland, England and Wales was gathered in February 2023.

From this most recent data, we can see that the average house price in England (£308,000) is significantly higher than both Wales (£215,000) and Scotland (£180,000).

The Welsh property market has actually experienced the most growth in the last 12 months, as prices rose by 6.4%. As such, investments in Wales could see strong growth as the market continues to stabilise, while the lower cost of a property could provide investors with more scope to act.

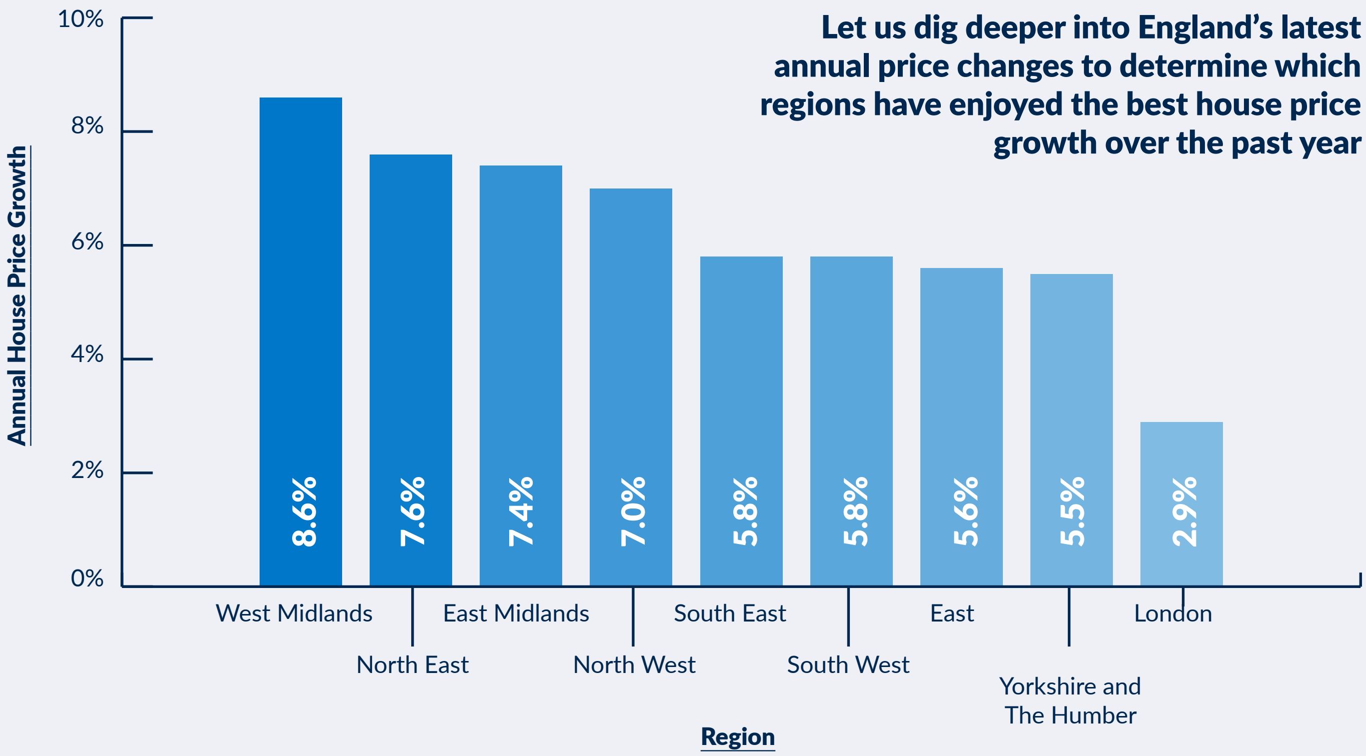
That said, England still provides the best potential appreciation of value when it comes to making a property investment in the UK, making it an overperformer in the current market.



Breaking down the data

BY REGION

Let us dig deeper into England's latest annual price changes to determine which regions have enjoyed the best house price growth over the past year



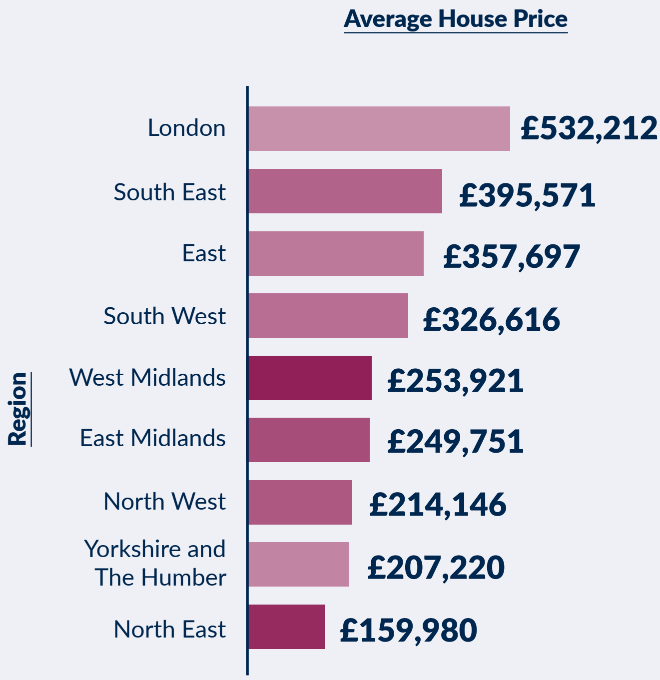
In the 12 months to February 2023, homeowners, property investors, and landlords in the West Midlands have enjoyed the best return on their investments as prices rose by 8.6%, putting the average cost of a house at £253,900. This represents a rise of over **£20,000**, and an annual rate of growth 1% higher than the next fastest growing region of the country – the North East.

At face value, therefore, one could argue that this shows that the West Midlands is overperforming when compared to the rest of the market, while London is falling behind. One can also infer that, despite Yorkshire and The Humber bucking the trend, landlords and investors in the more Northern regions of England have experienced the most growth on their investment in spite of the turbulence of the last year.

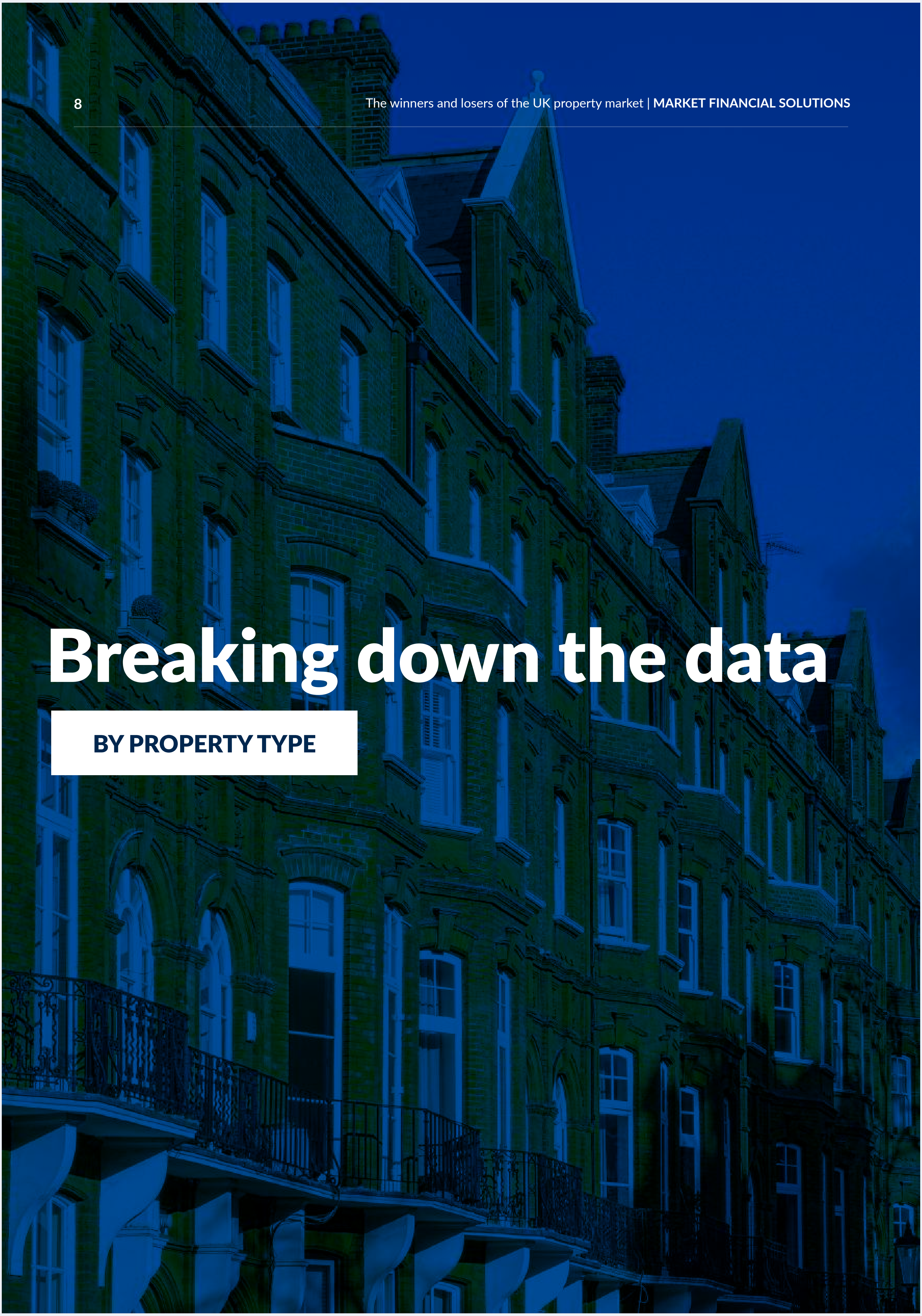
However, when one considers which regions of the UK have the highest annual house price, it is easier to see which regions could provide landlords and investors with the most potential gains as the market recovers.

Despite London's house price growth falling to 2.9% between February 2022 and February 2023, it continues to boast the highest average house price by a long way. This is primarily driven by the long-standing supply and demand imbalances in the capital. Therefore, even if prices are not growing at the same pace of rest of the market, it would be difficult to label property investments in the capital as underperformers.

As a global financial and cultural hub, investors in London will very rarely see demand dip significantly. There is also limited space for new development due to the geographic and regulatory restrictions in the capital. Consequently, London still has potential for strong capital growth in comparison to the rest of the UK, as it's unlikely that supply will fully ever meet demand.



But how do different property types compare to each other?



Breaking down the data

BY PROPERTY TYPE

According to data from the **Land Registry**, the best performing property type in the year to February 2023 has been detached houses, which have increased in value by over 7% to £457,449 on average.

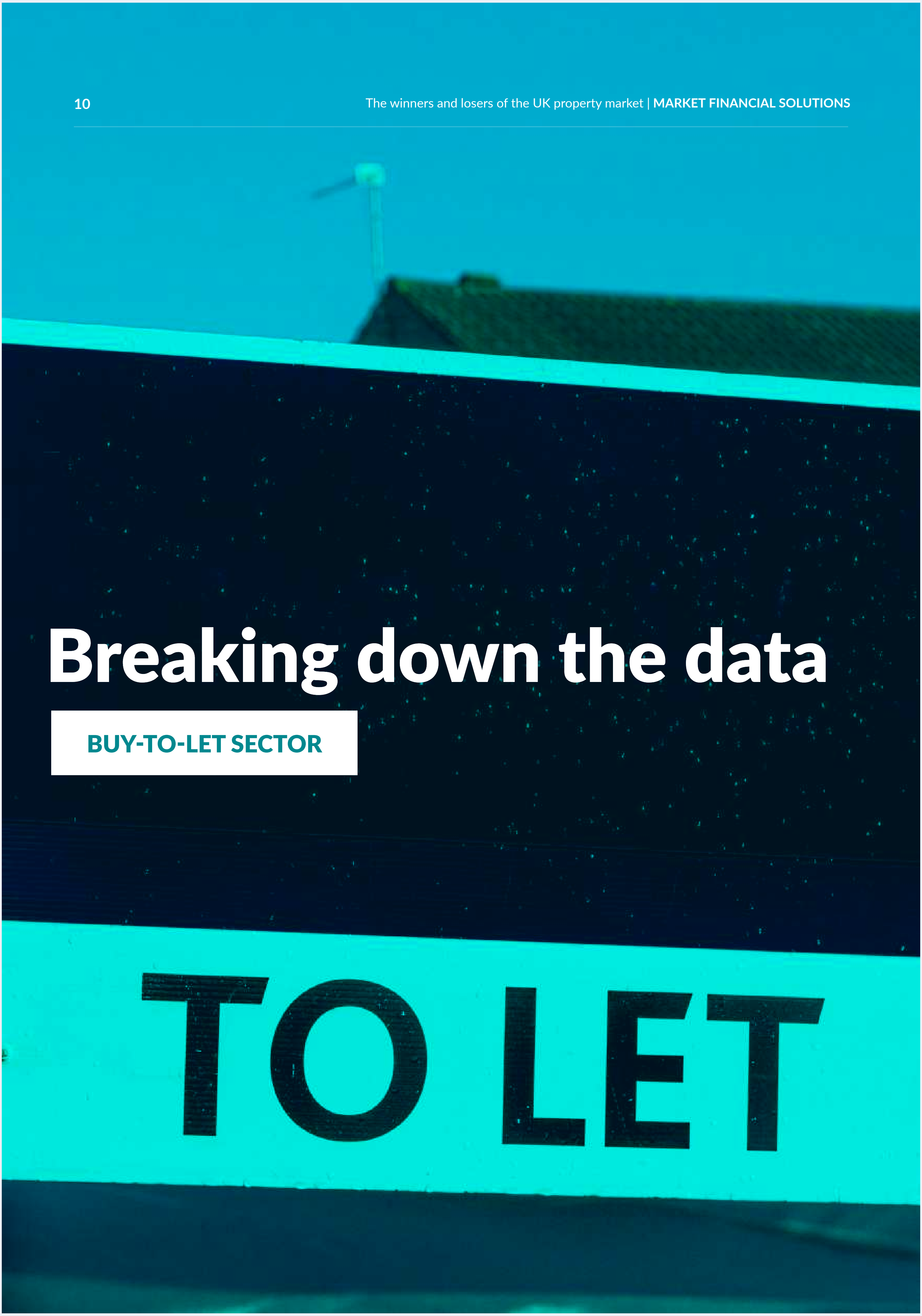
As such, landlords or investors who have detached houses in their portfolios are likely to have seen their investment outperform the rest of the property types on offer in the last year. But the data also points to some broader trends that are worth noting.

For instance, the pandemic and resultant shift to hybrid working caused what is often referred to as a 'race for space'. So, the fact that detached houses, flats, and maisonettes have experienced the most and least amount of growth respectively is less than surprising.

However, some commentators have suggested this dynamic is starting to shift, with many people returning to cities now that post-pandemic normality is here to stay. Indeed, according to **Knight Frank's** data from 2022, the number of property exchanges in regional towns and cities ticked up by 10% between July and September compared to the same period from two years before. In the countryside, meanwhile, exchanges in this period dipped by 9%.

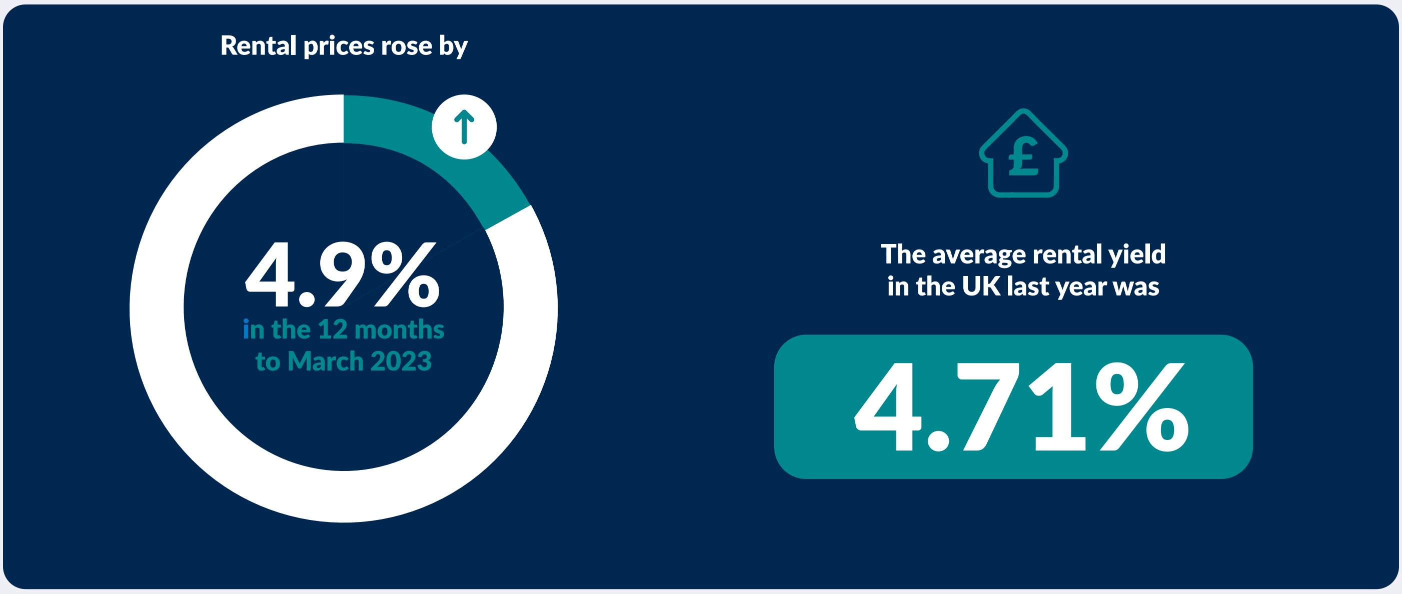
It is possible that flats and maisonettes could see greater growth in the coming months as the return to cities continues. However, in the current market, they seem to be underperforming.

"With many people returning to cities now that post-pandemic normality is here to stay



Breaking down the data

BUY-TO-LET SECTOR



The buy-to-let sector (BTL) has seen notable demand and rental price growth in the last 12 months. Indeed, according to the **ONS**, rental prices rose by 4.9% in the 12 months to March 2023.

Interestingly, BTL landlords and investors in Scotland have enjoyed the most growth (5.1%) in rental prices in the year to March 2023, with England (4.6%) and Wales (4.4%) a little further behind. These figures represent the largest annual percentage changes since the ONS began gathering each country's respective data. So, it is clear that the BTL sector is booming in spite of the wider economic and market conditions – but why?

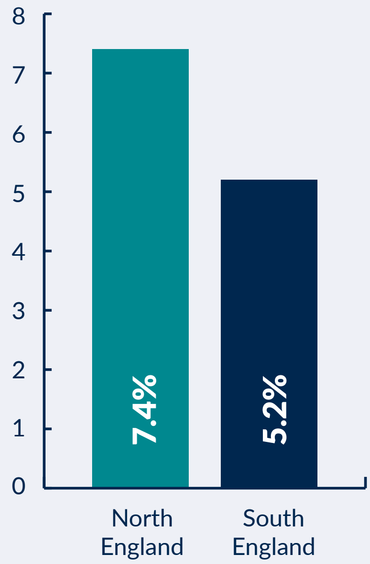
One explanation is that the demand for rental properties far outweighs supply. On average, **10 prospective tenants** register for each property that comes to market, while many amateur landlords have exited the market as their BTL investments became more expensive to manage due to elevated mortgage rates.

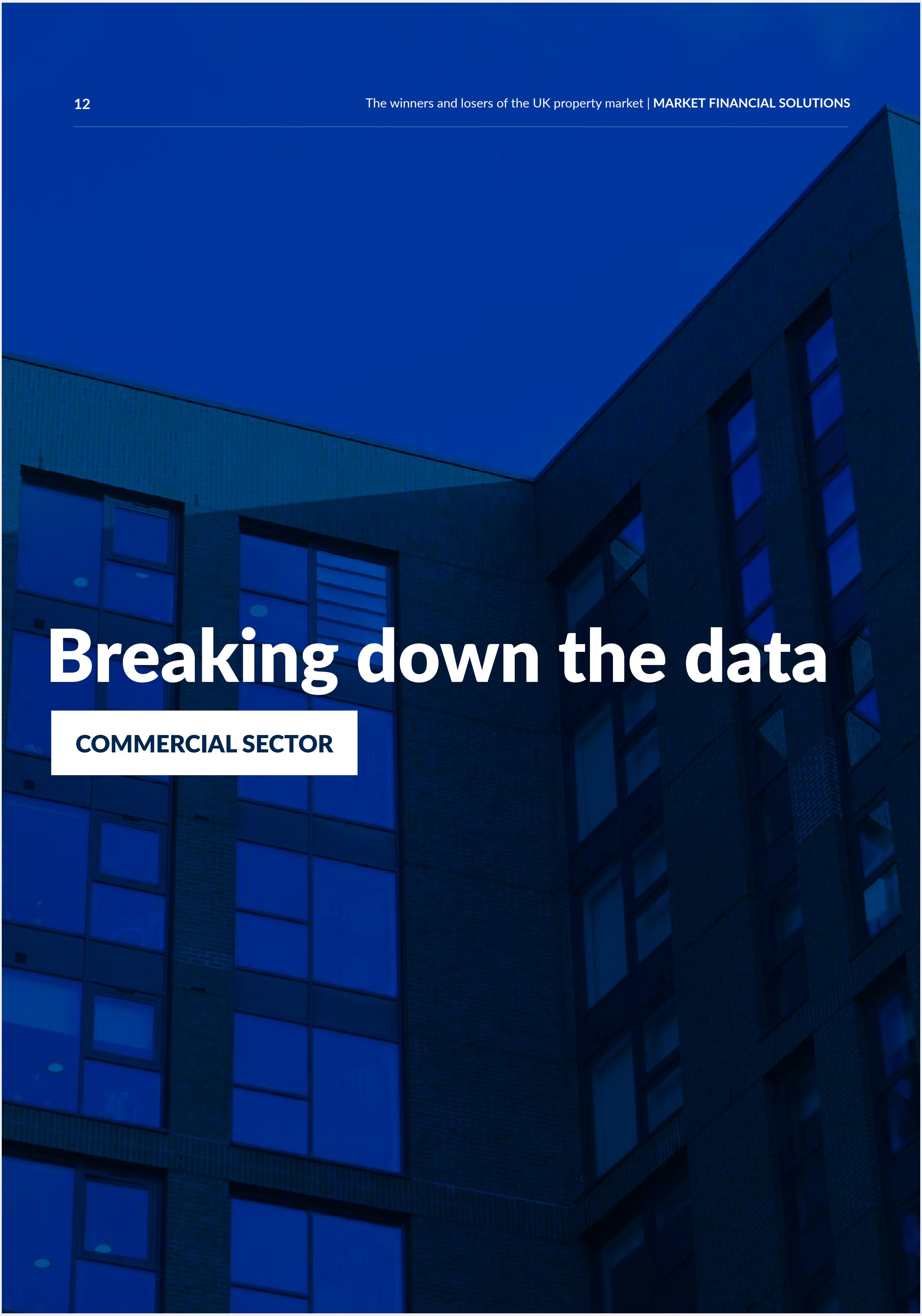
As such, with prospective buyers putting plans to purchase on pause in the current climate, and choosing to rent instead, the BTL market remains incredibly tight – so how have yields been impacted?

The average rental yield in the UK last year was **4.71%**. However, some regions performed better than others. For instance, **figures show** the North of England (7.4%) is providing the best yield in the current market, 2.2% above the average in the South.

Moving forward, landlords would do well to look for properties in affordable locations with the amenities nearby that could support higher rental prices. These areas could offer attractive yields over the coming years. As is stands, the North East and the Midlands look set to provide landlords and investors with the best yields in the current market. It remains to be seen if this will still prove to be true as we move into the future.

Average rental yield in UK in 2022 (%)





Breaking down the data

COMMERCIAL SECTOR

> **Commercial investors could soon reinstate themselves as overperformers if values rise in the sector**

Commercial investors should be encouraged by March's data that shows values have risen by

0.6%

When compared to the BTL sector, investors in the commercial property sector may have experienced a more difficult 12 months. Despite commercial property prices peaking in May 2022, UK commercial property capital values fell by **13.3%** across 2022, with average total returns dipping by **9%**.

In particular, investors in the industrial sector underperformed the most, with values falling by **21%** and returns coming in at **-18.1%**. Meanwhile, office sector investors saw a smaller decline in values (-12.1%) and returns (-8.3%). The retail property section of the commercial market, therefore, arguably overperformed when compared with the rest of the sector, even if it saw values fall (-8.1%) and returns dip (-2.1%).

However, commercial investors should be encouraged by March's data that shows values have risen once again (**by 0.6%**) for the first time since June 2022. Indeed, with stability returning to the economy, business and consumer confidence should pick up and support the demand for commercial property in the next few months - especially as it seems that the UK economy will narrowly avoid a recession. Commercial investors could soon reinstate themselves as overperformers if values rise in the sector, and the wider economy moves in the right direction.

The thoughts of our CEO

"It is no secret that the last year has been testing for the UK property market. With economic headwinds constraining buying power and increasing the cost of borrowing, many sectors of the market have had to adjust. However, much of the growth of the last few years remains, and the recent slowdown ought to be a minor blip in the continued success of the property market.

"More than anything, this report shows that landlords and investors can benefit from the opportunities that the different countries, regions, property types and sectors within the UK property market are still providing. As such, it is vital they remain savvy when it comes to their investments and seek out property assets that will provide them with the best return in the current market. This will also depend on their goals – are they investing in a long-term rental property, or to flip and sell in a short space of time?

"Clearly, the buy-to-let sector is performing well still as rental prices rise significantly. For those landlords and investors who are keen to capitalise on the potential for high rental yields, MFS will be on hand to support their investments with our wide range of bridging loans and BTL mortgages.

"The current market is providing landlords, investors, and lenders alike with some unique challenges. However, our flexible financial products can be delivered at speed, with a great deal of certainty and optionality, which will help landlords invest confidently as the market stabilises. Indeed, we are able to assist investors and their brokers to find the best possible solution for their situation, regardless of how complex the circumstances might be."

*- **Paresh Raja, CEO,** Market Financial Solutions*

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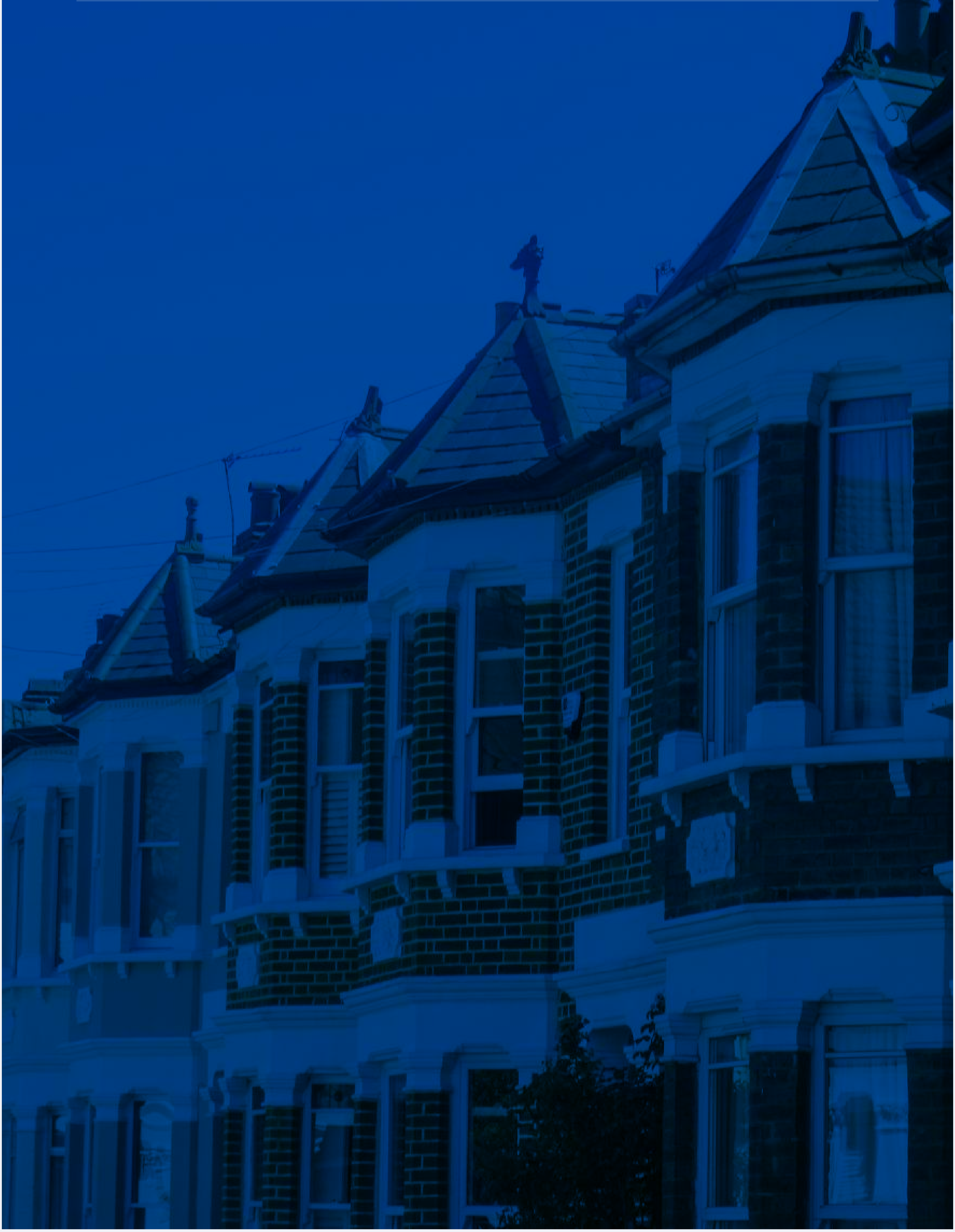

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