
Maskells Quarter End Comment

Increasing interest rates, increasing mortgage rates, the largest annual fall in the Halifax House Price Index in 12 years, the spectre of a Labour Government etc... - it's enough to shake even the most battle hardened of us. In this paper, we will look some of the data behind the stories and give our view on the Market. We will conclude that the housing market will go down, but we don't think it will be Armageddon provided that the market accepts that it must act now (or in the very near future) or be prepared to sit this one out. We do not see high price volatility as Vendors in our area will support the market but what we do see is a reduction in transactions as Buyers look to achieve what they consider to be tomorrow's price and Vendors look to achieve yesterdays.

CPI has just fallen to 7.9% for June from 8.7% with core inflation down 20 basis points. The numbers suggests that UK inflation is stubborn: as one item falls (Clothing and footwear for example) another rises (Furniture and household goods). However, the speed and increase of the current interest rate hikes is, in our opinion, not that helpful and much of the movement could simply be based on time of year consumption. Our opinion is that today's prices are baked into current stock levels and orders (often made months in advance), company financing etc... and it takes time for an economy to react to interest rate increases. Of note is that the Purchasers Manufacturing Index (PMI) has remained below 50 since July of last year, an indication of contraction in the manufacturing industry. At the end of June 2023, the figure is 46.5. There are less

goods being manufactured and the availability of cash seeking those goods remain high due to years of quantitative easing, cash not spent during the pandemic and wage-push/pull inflation. For example, new car registrations rose 25.8% in June alone. Initial orders may have been made months ago but these were confirmed, and therefore committed to for June delivery, during the current interest rate increase cycle and the associated increased cost of car loans.

Existing fixed rate mortgages also mean that it will take time for interest rate hikes take effect. Even with a 5-year fixed mortgage being touted in the press as being over 6% most UK mortgage holders (according to UK FI) are still paying around 2.8%. For now. This will take time to correct as not everyone is going to refinance at the same time. Our calculation of the refinancing window for the bulk of the current five-year mortgages is over the next 12-18 months. But as this happens, it will have a significant impact. A case study:

Looking at Hammersmith and Fulham by way of example. The Council's website details that there are 92,000 dwellings in the borough and 30% are privately owned. Half of those are mortgaged. We know from UKFI that the total mortgage debt in the Borough is approx. £9.8bn and according to Rightmove, the average dwelling price is £1,356,032 (Flats £883,000; Terraced £2,176,000; semi-detached £3,734,000). This gives us a mean average Loan to Value for the borough of 52%. This correlates to the LTV

that high street banks are currently experiencing on their own mortgage books and gives us an approx. mean average mortgage debt of £700,000 on privately owned residences. If these borrowers refinance at a rate of say 5.6% (from 2.8% above) their interest only payments will increase from £1,635 to just over £3,200 per month.

If we assume that a 3.5x income multiple was used to underwrite the £700,000 loan, then the maximum these borrowers could now borrow would be approx. £300,000 to keep the same monthly payments. Or in other words, the house prices in Hammersmith and Fulham purely on a mathematical mean average basis (with no view on bank deals, loan modifications or other incentives or changes in underwriting) would have to fall almost 30% to provide for the same monthly payment. That is quite a chilling thought.

However, before we all throw in the towel and have a wobbly let's put this into context. Firstly, and most importantly it is not in any mortgage lenders best interest to have house prices drop by this extent. This is because bank mortgage loans have risk weightings attached to them and the Loan to Value is an indicator of risk – at 75% and higher, the banks have to set aside more cash against those loans which is bad for their return on equity. So, whilst the Current weighted Average LTV with most high street lenders is just over 50% for now, a 30% fall in house prices in our example above would require them to hold more cash against the loan. This is not in their best interests (and we can be sure that Lenders will act in their best interests). Lenders are therefore incentivised to find solution via loan modifications, reduced interest rates etc...to help borrowers so that they do not have to sell. As UKFI noted over a year ago, if borrowers need help, they are to **talk to their lenders who stand ready to help.** This was reiterated in the Mortgage Charter of last month.

Whilst awful for mortgage borrowers, it is also important to remember, (something we feel the press often forgets) that of the housing stock in a given borough or local authority, between 30-40% is privately owned and approximately half of that is debt-free. In fact, of the 15.7m dwellings in the UK which are owner occupied 7.1m have mortgages of which 4.1m are regulated mortgages, so half the households in the UK are not affected by mortgage rate increases at all. Good news for them, but hardly a comfort for others.

In our opinion, there is no question that we will see a fall in the house prices but to what extent is yet unknown. Zoopla's House Price Index at the end of June noted that there has been an 11% reduction in buying power for those reliant on mortgage finance and if rates continue to increase, it is reasonable to expect that to fall further. However for some, this fall has been what they have been waiting for: As your property value falls by 10% , so does the more expensive one you were admiring – by the same percent but a greater cash value. We may therefore well see a disjointed market for the time being where some Vendors engage with buyers who do not need to finance their purchase. This is often the case in our patch.

For those however who do need to sell, SDLT payable by buyers remains an issue. If the Government really wanted to support the housing market, the sensible thing to do now (and which will minimize the mortgage burden) is to remove stamp duty in whole or in part, at least until interest rates have stabilised and lenders can more accurately price their mortgages. If a borrower needs to get out of debt, and the Government are seeking to do what they can to help this demographic, then it seems bonkers to have a tax barrier for a potential buyer.

We do expect our market to continue to operate efficiently – we have 19 properties under offer moving to exchange as I write this and whilst we do expect the next 12-

18 months to be more challenging, we do not see the Armageddon that is being touted by the Press. Being an owner of a Prime Central London property is an

expensive Club to join, and Vendors are not going to give up their desirable places cheaply. This should give continued comfort to buyers.

If you would like to discuss the market further, or the sale or letting of your property, please do get in touch.



CONTACT US

If you would like to sell, buy or rent a property, or if you would just like some impartial advice, we would be delighted to help.



Charles Curran
Managing Director
020 7581 2216
ccuran@maskells.com



Jamie Hope
Managing Director, Sales
020 7581 2216
jhope@maskells.com



Peter Hermon - Taylor
Managing Director, Lettings
020 7581 2216
peterHT@maskells.com

