United Kingdom

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IN A NUTSHELL

- → House prices fell as mortgage interest rates rose and cost of living weighs on affordability.
- → House prices in London grow more slowly than the rest of the UK, but remains the most expensive region.
- → Arrears increased slightly but remain low.
- → The effects of the pandemic on the housing market begin to dissipate.
- → Help to buy equity loan scheme for first-time buyers closed in October 2022 but mortgage guarantee scheme extended to December 2023

MACROECONOMIC OVERVIEW

The economy grew by 4.1% following growth of 7.6% in 2021. By the end of 2022, the economy had recovered from the contraction over the pandemic and the level of GDP was broadly on a par with that in February 2020. Growth was driven by pent up demand by households who were able to accumulate a large amount of savings in 2020 and 2021.

Consumer prices rose throughout 2022 mainly driven by higher energy costs as a result of the political crisis in Ukraine and supply bottlenecks as the global economy recovered from the pandemic. In addition, conditions in the UK labour market were extremely tight with job vacancies reaching record high levels whilst the number of those considered economically inactive (not in work or looking for work) increased significantly, mainly due to more people suffering from long term illnesses. This put additional upward pressure on wages and prices and in October to December 2022 average wage growth remained elevated at 5.9%. Although adjusted for inflation, wages in real terms fell by 3.1%. Consumer prices measured by the Consumer Price Index (CPI) increased by 10.5% in the 12 months to December 2022, far higher than the Bank of England's 2.0% target. In response to higher inflation, credit conditions tightened significantly in 2022, with the Bank Rate increasing from 0.1% in December 2021 to 3.5% by the end of 2022, and then to 4.5% by May 2023.

LOOKING AHEAD

Wage and price setting remain more persistent than expected, and whilst the headline rate of inflation has reduced due to falling energy costs, core inflation remains persistently high. This suggests further tightening of monetary policy may be required throughout 2023 to bring CPI inflation back to the 2.0% target. This will put additional financial pressures on households in 2023 and beyond. It is estimated that around 1.8 mn households will be coming off fixed rates in 2023, many of which were fixed at rates close to 1.0%. These households will see a significant shock to their finances when refinancing at current mortgage interest rates. Mortgage affordability will decline for first-time buyers and those looking to buy a new home which is likely to see demand fall for house purchases and for prices to come under further downward pressure.

HOUSING MARKETS

House prices increased by 10.1%, from 8.9% in 2021 and 2.9% in 2020. However, towards the end of 2022 house prices started to fall on a month-on-month basis across all regions in the UK. This reflected a slowdown in housing market activity as the cost of living and rising mortgage interest rates put pressure on household finance.

In London, house prices grew by 5.9%, less than the UK as a whole, however it remains the most expensive region in the UK. Price growth remained stronger for larger, detached properties, reflecting the continued adjustment in housing preferences following the pandemic and more people working from home. However this trend has begun to fade as people move back to cities and resume a more normal way of living with more people returning to work in the office.

In England, home ownership rates have increased over the last few years from a low of 63% in 2016/17 to the current rate of 64.3% in 2021/22 which was relatively unchanged from 64.9% in 2020/21. The return to higher interest rates and the fall in mortgage affordability, may mean home ownership rates keep lowering in the coming years.

In 2021/22, a greater proportion of homeowners owned their home outright (35%) compared to those with a mortgage (30%). This has been the case since 2013/14 and is partly explained by the ageing population, with a large number of 'baby boomers' reaching their retirement and being able to pay off their mortgage. Only 49% of households own their home in London compared to 67% in all other regions of England. 29% of people rent in London compared to 17% in all other regions of England.

There were 178,110 house building starts and 177,820 completions in 2022. This was relatively similar to the number of starts and completions in 2021.

MORTGAGE MARKETS

MARKET DYNAMICS

Mortgage lending activity was strong in 2022. Gross lending totalled GBP 313.7 bn in the year, up 2% on the GBP 308.1 bn in 2021 and 17% on the GBP 269.0 bn in 2019 - before the pandemic. Net lending was GBP 61.0 bn, down 15% on the GBP 72.0 bn in 2021 but up 23% on the GBP 46.8 bn in 2019 - before the pandemic. This reduction in net lending is due to the very high level of mortgage repayments in the year, totalling GBP 254.4 bn - up 7% on the GBP 237.8 bn in 2021 and the highest since comparable records began in 1999. Homeowners may have opted to pay down mortgage debt as interest rates began to rise in order to reduce mortgage interest payments.

The mean LTV ratio on new loans was 71.7% in 2022, up from 70.3% in 2021 reflecting the increased size of the average loan advanced which was up 6% from GBP 224,000 in 2021 to GBP 237,000 in 2022.

Average mortgage interest rates on new loans were 2.56% in 2022, up from 2.11% in 2021. This largely reflect the increase in the Bank of England base rate which increased from 0.25% in January 2022 to 3.5% in December 2022. It also reflects the additional risk premium included by lenders following the increased economic uncertainty after the Government's fiscal announcements in September 2022. For much of the year interest rates on longer fixed term products were lower than on shorter term products. For example the average rate on a 2 year fixed rate loan at 75% LTV was 3.51% in 2022 compared to 3.38% on a 5 year fixed rate at 75% LTV. This reflected market expectations that the base Rate would begin to fall in the medium term.

The number of loans in arrears increased to 2.48% at the end of 2022, up from 2.19% at the end of 2021 reflecting the increased financial pressures on households from the increased cost of living and rising mortgage interest rates. There were 1,159 new properties taken into possession in 2022, up from 752 in 2021. However this still remains very low and is below the 2,043 in 2019 - before the pandemic. Many of these new possessions are cases that are likely to have been in difficulty prior to the pandemic and not a result of recent changes in the macroeconomic environment. However, arrears may pick up in 2023 and 2024 with 1.8 mn households coming off fixed rates and needing to refinance at much higher rates.

NON-MARKET LED INITIATIVES

The Help to Buy equity loan scheme for first-time buyers closed to new applicants in October 2022 after 10 years of operation. This Government scheme assisted around 225,000 first time buyers by lending them up to 20% of the value of a property (40% in London), for properties up to a value of GBP 600,000. A 5% deposit was required from the buyer, and the loan was interest-free for the first five years.

The government's mortgage guarantee scheme was extended in December 2022 for a further year until December 2023. This helps first-time buyers purchase a home with a 5% deposit. Under the scheme the government offers lenders the financial guarantees they need to provide mortgages that cover the other 95%, subject to the usual affordability checks, on a house worth up to GBP 600,000. This scheme was first launched in April 2021 and assisted over 24,000 households.

MORTGAGE FUNDING

At the end of 2022 banks had borrowed GBP 182 bn via the TFSME (Term Funding Scheme with additional incentives for Small and Medium sized enterprises) which will need to be refinanced over the next two years. Some GBP 10 bn has already been repaid, and more may be repaid early as the cost of funding via the scheme has risen with the Bank Rate.

Funding from retail deposits was strong relative to the pre-pandemic period in 2022. Lenders raised GBP 74.3 bn from customer deposits, compared to GBP 63.9 bn in 2019. However, it was weaker than in 2021 (GBP 113.0 bn) and 2022 (GBP 177.8 bn) during which households were able to build up considerable savings (in aggregate) due to the limited spending opportunities whilst incomes were supported by the government's jobs retention scheme. Savings interest rates increased over the year as the Bank Rate increased and new drawings from TFSME stopped, increasing competition for deposits. Instant access rates increased to just 0.83% in December 2022 compared to 0.09% in December 2021. Fixed rates increased to 3.33% in December 2022 from 0.67% in December 2021.

2022 saw a return to public funding by UK covered bond issuers, with over GBP 13 bn of public bonds issued, compared to GBP 3 bn in 2021. A further GBP 2 bn of new retained bonds meant that the level of new issuance was broadly similar to bond maturities. The increased supply of new bonds was met with good investor demand, as the end of the pandemic and the scheduled repayment of central bank funding supported higher levels of activity.

GREEN FUNDING

There are a number of initiatives to help finance energy efficiency improvements currently underway in the UK. First, the Government has launched the Green Home Finance Accelerator, which is providing grants to selected projects to develop innovative financing options in this area. The programme is currently in its discovery phase with over GBP 4 mn allocated to 26 separate projects. The Government has also implemented various subsidies and grants for various clean energy technologies. For instance, the Boiler Upgrade Schemes provides grants to homeowners installing heat pumps to help them meet the upfront costs. Other initiatives include the Great British Insulation Scheme, which will provide GBP 1 bn in funding for improvements such as cavity wall and loft insulation, and the Heat Pump Investment Accelerator competition that offers GBP 30 mn to stimulate heat pump production. The Government is also consulting on increasing energy efficiency standards with lenders.

At the regional level, Manchester has implemented a retrofit plan to decarbonise its housing stock. The programme includes distinct financing mechanisms to be tested, including property-linked finance, green rental agreements and a green mortgage campaign.

Aside from government schemes, the market has continued to develop new green finance options for homeowners. In the past several years, the market has grown from a handful of green mortgage options to well over 50. These typically involve incentives in the form of discounted interest rates or cash back for purchasing an energy efficient home or upgrading an existing property. More innovative products have come to market recently. These include offers of additional borrowing for home upgrades at 0% interest; enhanced EPC certificates (EPC-plus) providing more detail and access to a technical team with questions, retrofit project management services; and modification of affordability calculations to account for cost savings on energy efficient properties.

	UK 2021	UK 2022	EU 27 2022
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1, 3)	7.6	4.1	3.5
Unemployment Rate (LSF), annual average (%) (1, 3)	4.8	3.6	6.2
HICP inflation (%) (1, 3)	2.5	7.9	9.2
HOUSING MARKET			
Owner occupation rate (%) (1)	65.2	64.3	69.1
Gross Fixed Investment in Housing (annual change)(1)	n/a	n/a	1.5
Building Permits (2015=100) (2)	n/a	n/a	125.8
House Price Index - country (2015=100) (2)	130.6	143.7	164.6*
House Price Index - capital (2015=100) (2)	117.9	124.9	163.8*
Nominal house price growth (%) (2)	10.2	10.1	10.6*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	1,861,750	1,835,703	6,743,197
Outstanding Residential Loans per capita over 18 (EUR) (2)	35,012	n/a	18,433
Outstanding Residential Loans to disposable income ratio (%) (2)	102.9	97.2	71.5
Gross residential lending, annual growth (%) (2)	29.8	2.6	-6.5
Typical mortgage rate, annual average (%) (2)	2.1	2.6	3.1

* Please note that this value is the simple average of the available values in 2022.

Sources:
(1) Eurostat
(2) European Mortgage Federation - Hypostat 2023, Statistical Tables.
(3) Office for National Statistics, UK.

UNITED KINGDOM FACT TABLE

Which entities can issue mortgage loans in your country?	Monetary and Financial Institutions (MFIs), which includes banks and building societies. Other specialist lenders (non-bank, non-building society UK credit grantors, specialist mortgage lenders, retailers, central and local government, public corporations, insurance companies and pension funds). Other (anything not covered elsewhere).
What is the market share of new mortgage issuances between these entities?	MFIs – 91% Other specialist lenders – 7% Other – 2%
Which entities hold what proportion of outstanding mortgage loans in your country?	MFIs – 89% Other specialist lenders – 7% Other – 4%
What is the typical LTV ratio on residential mortgage loans in your country?	72% (NB, now presented as mean statistic, formerly median. This results in a downward shift in LTV figures, although underlying trends are unchanged).
How is the distinction made between loans for residential and non-residential purposes in your country?	The distinction is based on the property being purchased and the purpose it will be used for. A residential loan is used to purchase a property that a person will live in. A commercial loan is one that is used to purchase commercial land or buildings. *[We have taken non-residential loans to mean commercial in this context]*
What is/are the most common mortgage product(s) in your country?	Initial fixed rate products.
What is the typical/average maturity for a mortgage in your country?	25 years.
What is/are the most common ways to fund mortgage lending in your country?	Retail deposits and wholesale funding.
What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?	Stamp Duty Land Tax – ranges from 0% to 12%, depending on property value Valuation fee – ranges from GBP 150 to GBP 1,500, depending on property value Surveyor's fee – ranges from GBP 250 to GBP 600 Legal fees – ranges from GBP 500 to GBP 1,500 Electronic transfer fee – around GBP 40 to GBP 50
What is the level (if any) of government subsidies for house purchases in your country?	There are no subsidies which apply to house purchase on the whole, there are however some subsidies for specific parts of the market, such as those who live in social housing.