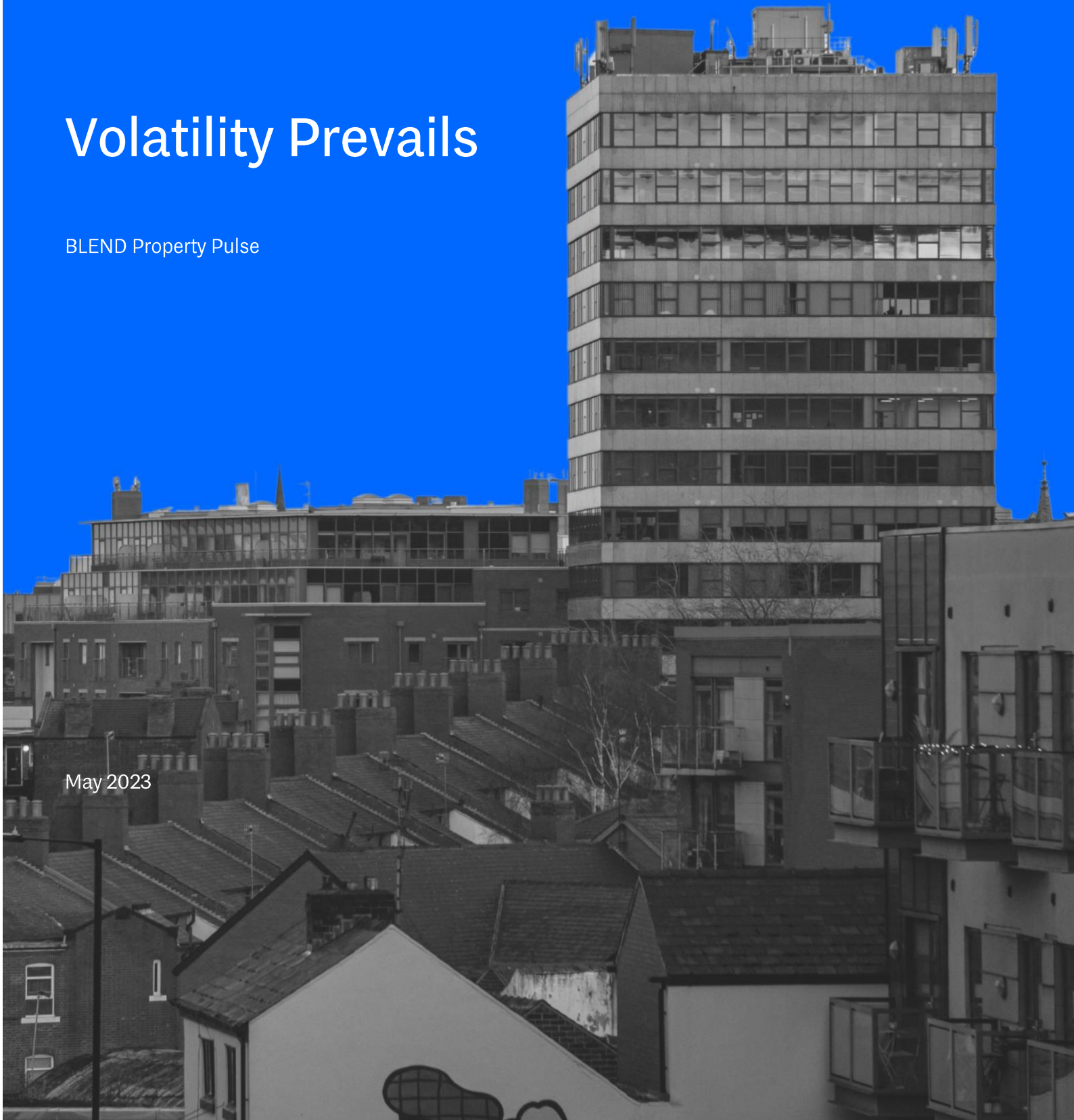


# BLEND

## Volatility Prevails

BLEND Property Pulse

May 2023



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## MIXED SIGNALS

### **The journey to recovery remains uncertain.**

Despite the increasing signs that UK house prices may be steadying, many risks remain and the journey to recovery remains bumpy. According to Rightmove, the average price of property coming to market rose by just 0.2% (+£890) last month, lower than the average of 1.2% at this time of year, as sellers are pricing cautiously to try and tempt Spring buyers!

Despite the economic headwinds, first time-buyer type properties hit a new record price of £224,963 last month. Faced with soaring rents, buying is still compelling for those first-time buyers who can clear the mortgage and deposit hurdles. The average first-time-buyer mortgage rate for a 5-year fixed, 15% deposit mortgage has fallen to 4.46%, with the lowest rate for this mortgage type now at 4.19%.

### **First-time buyer homes are faring better.**

Sales numbers have also recovered back to the more normal pre-pandemic market of 2019, and have exceeded last September's level, after which they plunged by 21% following the mini-Budget aftershocks. Agreed sales are now just 1% behind March 2019 with the strength of the improvement year-to-date defying expectations.

The first time-buyer sector (two bedrooms and fewer) leads this recovery, with agreed sales now 4% higher than in March 2019, while the second-stepper sector remains 4% behind, and the top-of-the-ladder sector 3% behind. However, sales agreed are still 18% behind last year's exceptional market as we transition to a more normal level of sales activity.

Elsewhere, the Nationwide House Price Index shows that April saw a 0.5% rise in house prices after seven consecutive falls (Exhibit 1). While annual house price growth remained negative at -2.7%, there were tentative signs of a recovery with prices increasing by 0.5% during the month. That said, prices still remain 4% below their August 2022 peak<sup>l</sup>.

If inflation falls sharply in the second half of the year, as most analysts and the Bank of England expect, this would further boost confidence, especially if job market conditions remain strong. At 3.8% in February, unemployment has remained relatively low despite the economic woes.

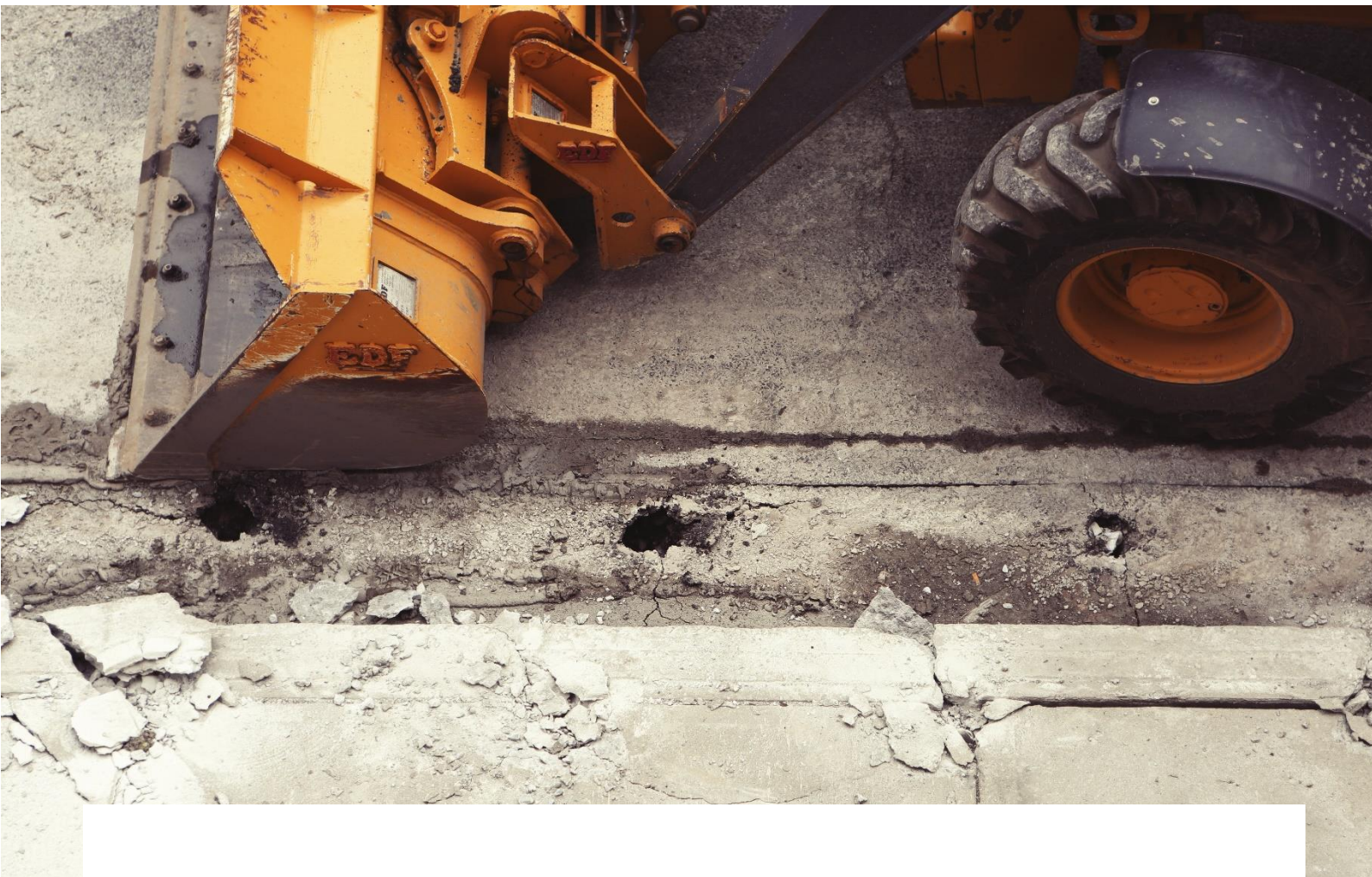
According to Bank of England data<sup>ll</sup>, the number of mortgages approved in February was nearly 40% below the level a year earlier, and a third lower than pre-pandemic levels. However, in recent months data on mortgage applications clearly point to signs of a pickup.

This is in line with with recent shifts in consumer sentiment and with stronger than expected GDP growth in the second quarter. The Government's commitment to maintain the Energy Price Guarantee at £2,500 for three further months from April means real household disposable income could remain broadly flat in the near term, rather than falling significantly. While confidence remains subdued by historic standards, people's views of their own financial position over the next 12 months, and general economic conditions in the year ahead, have both improved markedly in recent months.

Exhibit 1  
Year-on-Year change in UK house prices (2013-2023)



Source: Nationwide House Price Index<sup>v</sup>, Blend



## MORTGAGE RATES

Mortgages reached 6.94% last autumn in the aftermath of the Mini-Budget – the highest level in over two decades since 2002. But rates are now on the decline. While a total of eleven Bank of England interest rate rises have hit homeowners and prospective buyers hard, they are gradually expected to return to pre-pandemic levels. According to Moneyfacts, the average rate on a two-year fixed deal today is 5.28% – up from December 2021 when the average new two-year fixed rate was priced at 2.34% – and the average five-year fix rate is now 5.00% – up from 2.64% in December 2021.

But while mortgage rates have dropped over the past months, much uncertainty remains around their future direction. So much so that the difference between the average two-year fixed rate and the average standard variable rate (SVR) – now 7.12% – is now 4.55%, which is the largest margin on Moneyfacts records. Similarly, the last time the average two-year fixed rate was so much higher than the average five-year rate was back in February 2008.

Overall, UK mortgage rates have gone down since they spiked last autumn and are expected to gradually return to pre-pandemic levels.



# 03

## THE SHORCUT SMART STATISTICS

12%

### Planning restrictions

According to House Builders Federation, the number of housing projects granted a planning permission in England during 2022 Q4 was 12% down on a year ago and fell below 3,000 for the first time<sup>v</sup>.

4.2%

### Costs stabilising

According to the Build Cost Information Service (BCIS), construction build costs are expected to increase by 4.2% this year, down a jump of 11.6% in 2022<sup>vi</sup>.

55

### Housing delivery plans

According to House Builders Federation, so far, 55 local authorities have withdrawn or paused their housing delivery plans, including 17 since Gove's intervention in December<sup>vii</sup>.

## AUTHOR

BLEND is a specialist development finance lender providing experienced property developers with development finance and bridging loans of up to £10m. For more information, please visit [www.blendnetwork.com](http://www.blendnetwork.com) or email your enquiry to our team at: [enquiries@blendnetwork.com](mailto:enquiries@blendnetwork.com).

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