BLEND

Sentiment Is More Balanced

BLEND Property Pulse

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01 RESILIENT

Prices and demand are proving resilient

The London property market has started the year better than expected. According to Knight Frank[I], the third week of 2023 saw the fourth highest number of offers accepted in London during a single week in January in ten years. The buoyance extends to other parts of the country too. According to the Rightmove House Price Index[II], the number of prospective home buyers contacting agents is up 4% compared to the same period in 2019, and up by 55% compared with the two weeks before Christmas, the biggest New Year bounce since 2016. So even though we won't be counting our chickens before they hatch, we are confident that the property market correction this year will be less severe than many had expected.

New demand is also proving resilient[III]. The number of new prospective buyers registering in the first three weeks of the year was 6% higher than in 2020, during the so-called 'Boris Bounce' that followed the December 2019 general election. In fact, the only time more new buyers have registered in the equivalent period over the last decade was in 2022. Meanwhile, on the supply side, the number of new sales instructions in the third week of the year was the highest figure for a single week in January for a decade.

Consequently, we would agree with Knight Frank in that a double-digit price fall does not exactly feel imminent, at least for now.

Not out of the woods yet...

Does that mean that the worst is behind us? It is certainly too early to tell, particularly as we believe, along with the Bank of England and the market, that interest rates will peak at 4.0-4.5% in Q3 (see January Property Pulse). But sentiment is definitely more balanced from discussions with property developers. We believe the resilience of prices and sales volumes will be tested in a few months when the number of transactions picks up and by the time virtually no five-year fixed-rate mortgage below 4% will remain in circulation. For the time being, it appears as though buyers and sellers have accepted the fact that higher mortgage rates are here to stay.

What is increasingly apparent, and this is something we have pointed out in the past, is that the market correction is shaping to be highly localised, both in terms of geographical locations and in terms of types of properties.

Geographically, according to Savills[IV] markets further from London where mortgage affordability is least stretched, have remained more resilient to increased borrowing cost. For example, properties in the Midlands and North (-0.1%), Scotland (-0.7%), and South of England beyond the commuter zone (-1.1%) have seen the smallest price adjustments.

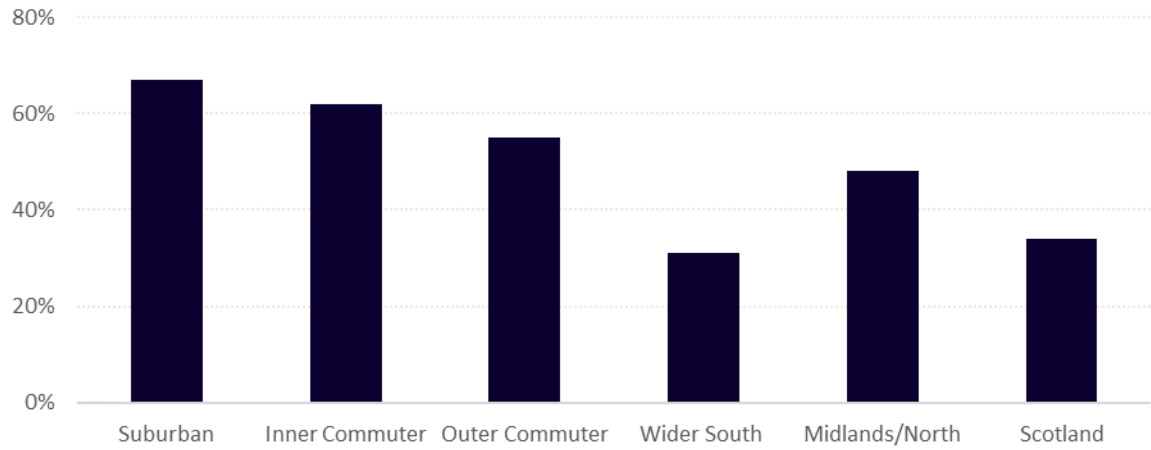
In terms of property types, while we wait to review Q1 price data, Nationwide Building Society data[V] reveals that last quarter, the price of first-time buyer house declined by nearly 1% more than the price of former owner occupier houses compared to Q3 2022. This is in line with the plunge in the number of first-time buyers after the Mini-Budget and indicates how the spooking of the mortgage market in the aftermath of the 'Mini-Budget' crisis disproportionately affected first-time buyers. According to Yorkshire Building Society estimates, the number of first-time buyers fell by approximately 9% year-on-year last year[VI].

But sentiment is more balanced

While a number of downside risks to the housing market continue to prevail and we certainly don't expect the market to regain much momentum in the near term, sentiment is definitely more balanced from discussions with property developers. Savills' latest survey[VII] indicates that buyers and sellers have become more realistic after two years of record growth which has continued to support transactional activity. While developers and housebuilders are likely to be more selective in an uncertain planning environment, opportunities exist.

Exhibit 1

Percentage of prime buyers using mortgage debt



Source: Savills Dealbook data, 2020–Q3 2022, Blend

02 HOUSING SUPPLY IN FOCUS

The IMF Weights In

Earlier this week, the IMF said it expects the UK to be the only country across all the advanced and emerging economies to shrink this year, contracting by 0.6% and tailing behind the likes of Italy, Spain, and even war-torn Russia. High energy prices, the rising cost of mortgages, increased taxes, persistent worker shortages and stagnant productivity levels are holding the UK back. But beyond the near-term implications of a protracted economic recession for consumers and businesses, the IMF's warning will have dire consequences for housing construction output in an already undersupplied market.

At a time when chronic housing shortages is one of the most significant challenges the UK faces, a recession and the ongoing credit tightening faced by property developers is a silent threat to long-term supply of affordable housing. Small and medium-sized developers have historically had a key role in delivering housing. And this is why government and industry must act now to support the housebuilding sector, particularly mid-sized developers and housebuilders, in a bid to ensure quality and affordability for UK homebuyers in the years to come.

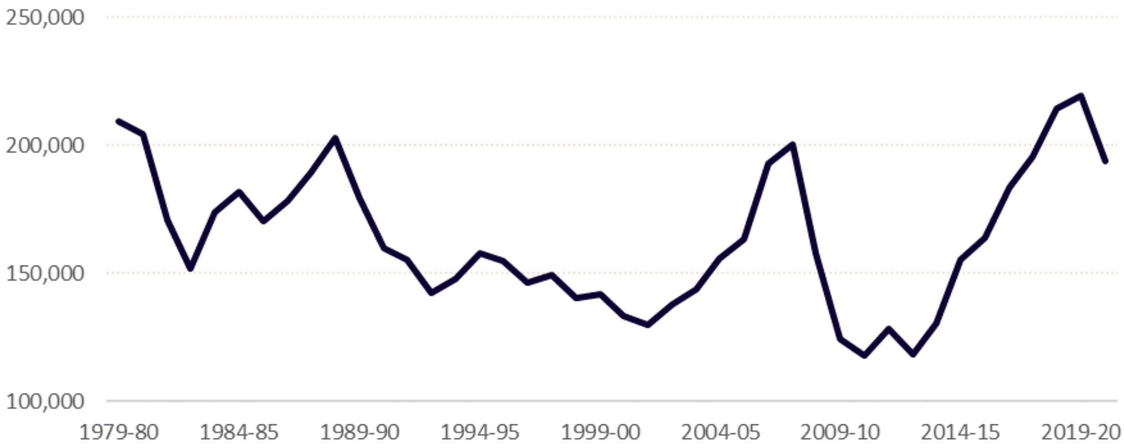
According to government housing supply indicators[VIII], there were 194,063 new built dwellings completed in 2020-21, down by 9.5% from 2018-2019 and by 11% from 2019-2020 and well below successive governments' long predicated but recently dropped target of 300,000 new houses per year. Over the past decade, an average 162,000 new dwellings have been completed each year across the UK, with pretty much no growth at all in annual completions despite housing supply being often cited as one of the most significant challenges of our times.
Of course, lack of funding remains a key difficulty.

A survey of almost 200 SME home builders across England and Wales carried out by the Home Builder's Federation revealed that access to finance remains one of the main barriers to housing delivery, even though stark regional differences exist. 18% of respondents in the North and 24% of respondents in the Midlands saw development finance as a major obstacle, as compared to just 3% of respondents in the South.

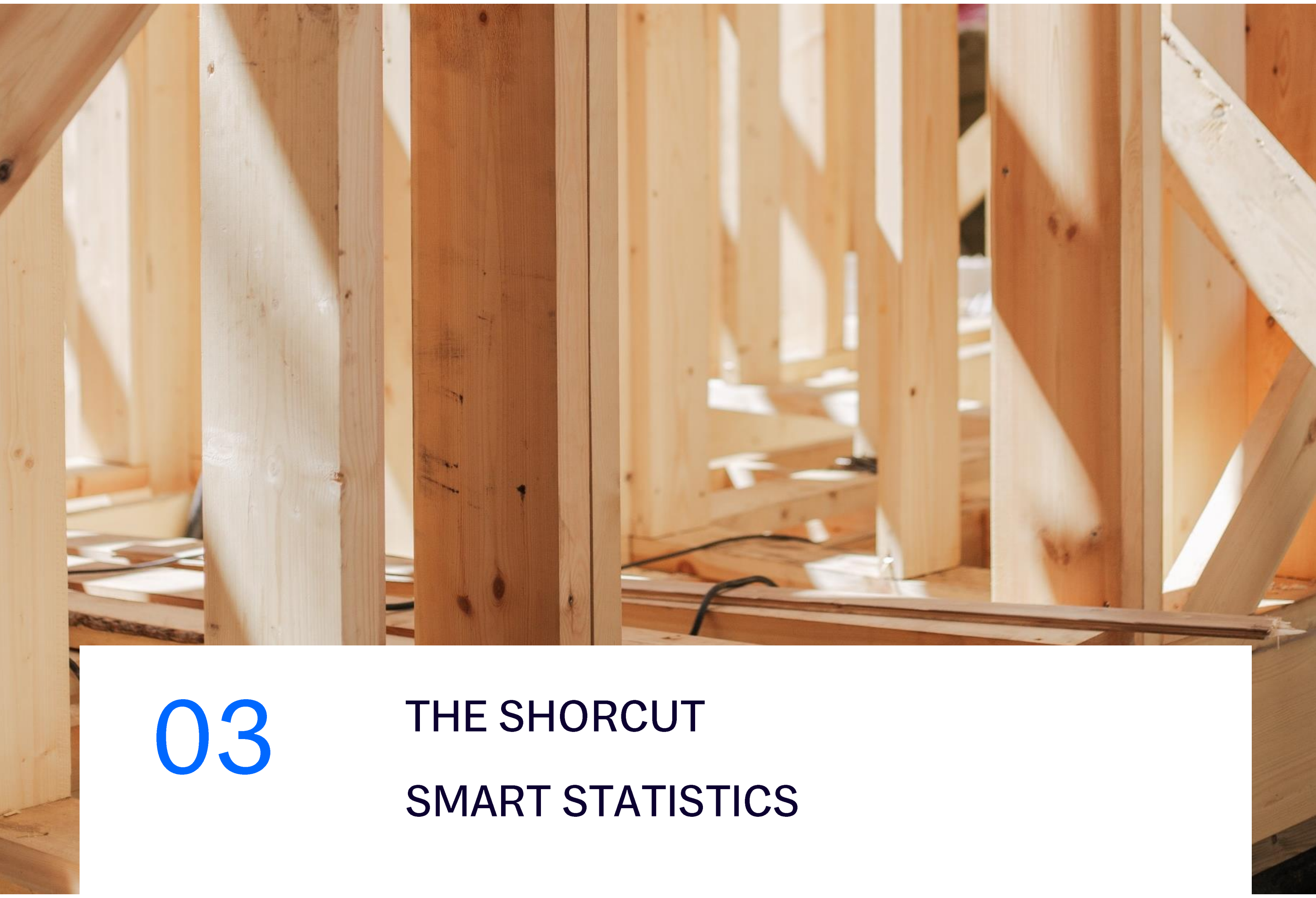
Specialist lenders must be brought into the fold to support SME developers. With their nimble and agile structures and appetite for lending, regulated lenders like us at Blend can lend where banks cannot or will not lend.

Exhibit 2

New build dwellings completed, England, 1979-80 to 2020-21



Source: Department for Levelling Up, Housing and Communities, Blend



03 THE SHORCUT SMART STATISTICS

+55% **New Year Bounce**

According to Rightmove's[I] House Price Index, the number of prospective buyers contacting agents is up 55% compared with the two weeks before Christmas, the biggest New Year bounce since 2016.

-10% **Cash is King**

According to Land Registry data, cash buyers in the North West of England were able to negotiate a purchase price that is 10% below the average property price in the region, a saving of £20,993[II].

£7.2BN **Record Activity**

According to Knight Frank, a record £7.2 billion was invested in the UK purpose-built student accommodation (PBSA) market last year. Deal volumes are expected to pick up again this year[III].

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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 or email your enquiry to our team at: enquiries@blendnetwork.com.

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