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Elston Insights

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UK property: is this another 2008?

- Servicing a mortgage is becoming increasingly painful
- Property market transactions are down sharply
- How does this compare to the financial crisis of 2008/9?

Similar…

The UK property market has become a focus for concern in recent months as the relentless series of interest rates hikes has translated into mounting pain for both mortgage applicants and mortgage holders. Data on both transaction volumes and house prices is echoing pressure that was last seen in the financial crisis of 2008/9. But is this a repeat?

The economy is certainly under pressure following Brexit, Covid, political instability, the energy and inflation shock, and now rising rates following the central bank's efforts to rein in inflation. There is a trade-off between fighting inflation and supporting growth and there is a very real risk that the Bank of England could overtighten and choke off growth. The lag between interest rate rises and economic impact is such that we've yet to see the pain show through.

In the past four months, residential property prices have fallen at a rate last seen in 2009 and both new buyer enquiries and the volume of agreed transactions have slumped as sellers and buyers are at an impasse.

Mortgage rates have been historically low for more than a decade, so for variable-rate mortgage holders, the jump from 0.1% in December 2021 to 5.25% only 21 months later is driving a potentially unaffordable hike in monthly mortgage payments, adding to the cost of living crisis. And while those on a fixed-rate mortgage may be insulated for now, they still face the prospect of remortgaging at significantly higher rates when their fixed term ends.

On the commercial side, the inverse relationship between interest rates and commercial property values, together with the shift to working from home, has led to a de-rating of commercial property values and consequently of property funds and investment trusts. The combination of a dependence on leverage amidst rising interest rates and the risk of higher vacancies in a slowing economy is putting commercial property under pressure.

But different

In contrast to the crisis of 2008/2009, however, the debt markets have not seized up and banks have not stopped lending. They are simply charging a higher interest rate which is driving down demand. Also, in contrast to 2008, financial institutions' balance sheets are in good health, on the back of regulatory changes that came about as a result of that crisis. And while the property market recovered sharply post-Covid prior to the recent interest rate hikes, it was not in bubble territory, which it was in the years leading up to 2008/2009.

Summary

There is certainly pressure in both the residential and commercial sectors of the UK property market, squeezed by rising debt costs and uncertain economic outlook. The pressure on buy-to-let investors is significant, as higher mortgage costs will eat into their rental income and erode profit margin. This part of the market could be most vulnerable, as investors offload properties. From a broader perspective, our view is that whilst the outlook for property is negative, it is not heading into the freefall that we saw in the 2008 financial crisis. Cash-rich buyers can use this as an opportunity to their advantage, as they have a competitive advantage over mortgage-dependent buyers.

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