

19th February 2024

UK house prices: turning a corner

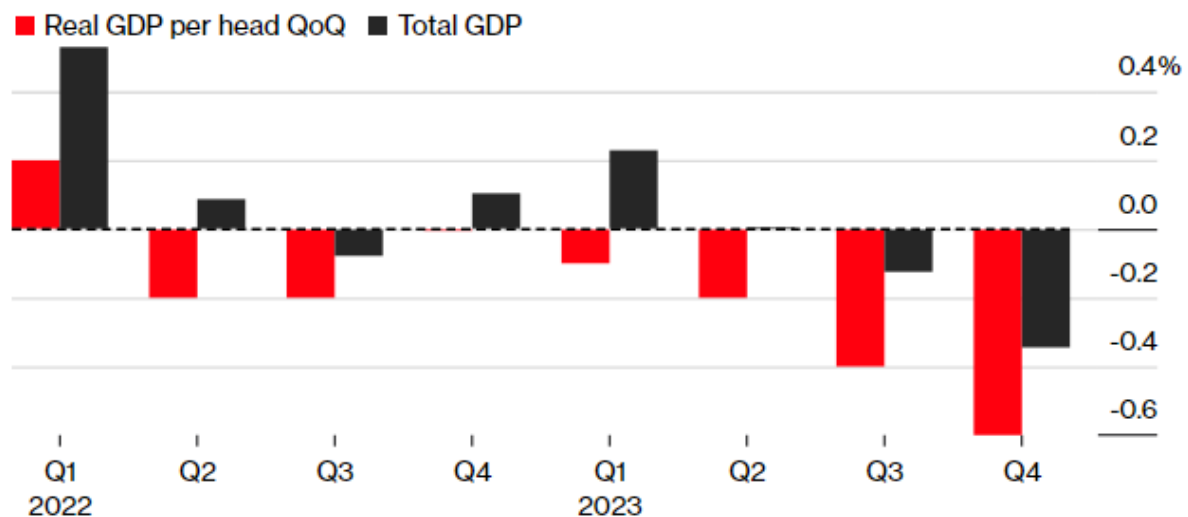
- UK house price declines coincided with recession data
- Mortgage market is easing with prospect of falling interest rates
- House prices have report first uptick since July 2023

Recent data shows the UK economy was in recession in 2h23. This was already reflected in GDP per capita and house price data. The mortgage market is easing with the prospect of falling interest rates as inflation moderates. House prices have reported their first uptick since July 2023.

UK house price declines coincided with recession data

Whilst recent GDP data shows that the UK was in a technical recession in 3q23 and 4q23, the GDP per head figures show that sequential declines started much earlier back in 2q22¹.

Fig.1. Real GDP per head data has been declining since 2q22



Source: ONS

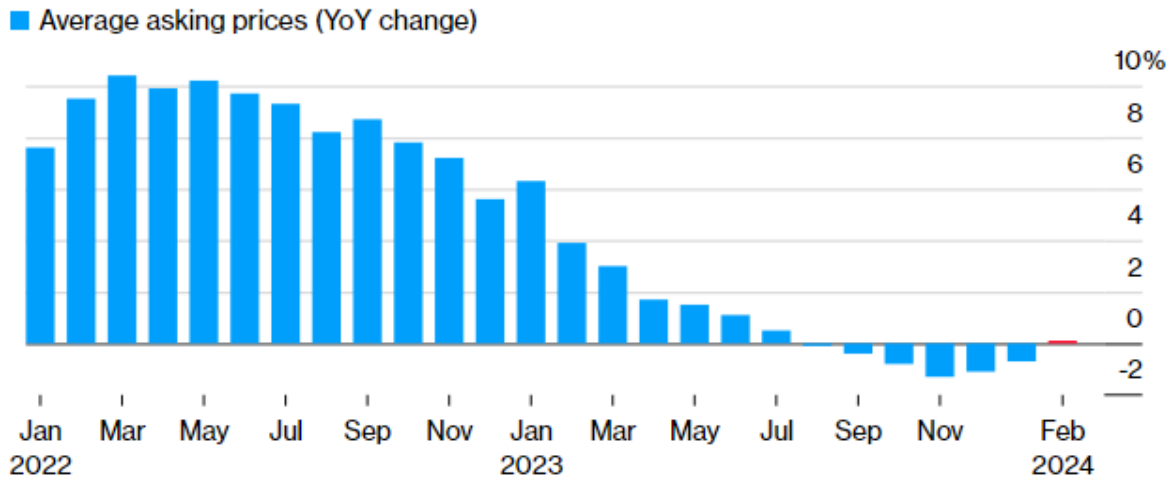
Chart: Bloomberg.com

These declines coincide with the declines in house prices as household budgets were squeezed. Annual change in UK house prices started decelerating in May 2022², and turned negative in August 2023, when borrowing costs also peaked.

¹ <https://www.bloomberg.com/news/articles/2024-02-15/uk-fell-into-technical-recession-in-second-half-of-last-year>

² <https://www.bloomberg.com/news/articles/2024-02-19/uk-home-asking-prices-rise-as-mortgage-relief-spurs-activity>

Fig.2. House prices have been decelerating since May-22, turning negative in Aug-23



Source: Rightmove

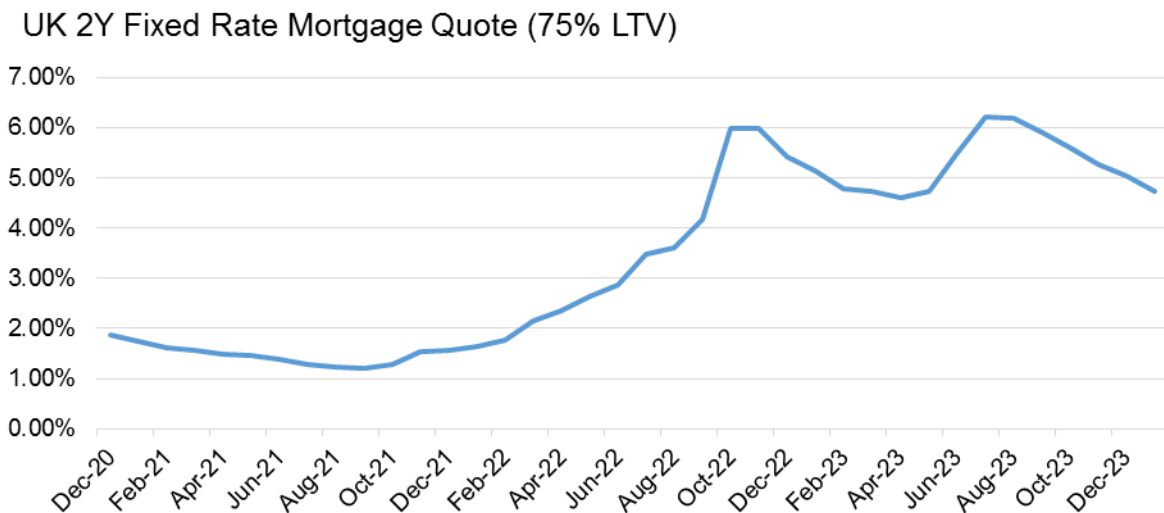
Chart: Bloomberg.com

Mortgage market is easing with prospect of falling interest rates

The mortgage market is also easing with the prospect that the Bank of England's may start cutting interest rates in 2024.

For example, the average quote on 2 year fixed rate mortgage based on 75% Loan-To-Value (LTV) was 4.73% in Jan-24, compared to a high of 6.22% in July-23.

Fig.3. Quoted 2-year fixed-rate 75% LTV mortgage rates



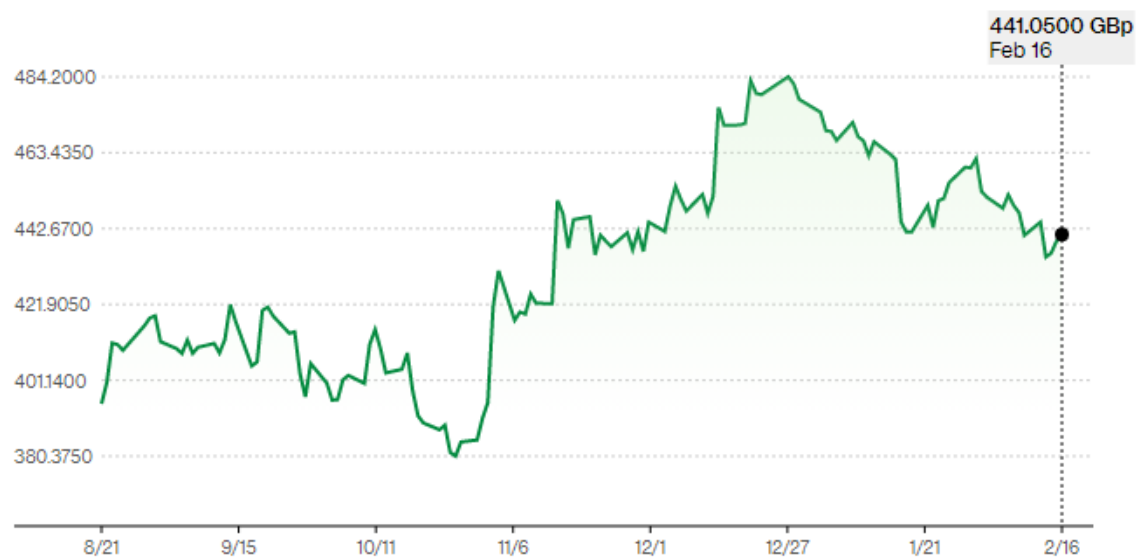
Source: Bank of England; Chart: Elston Research

House prices have report first uptick since July 2023

The prospect of lower interest rates, and easing borrowing costs has been supportive and UK house price changes turned positive again in February 2024 for the first time after seven months of declines, with growth of +0.1%yy.

UK Property Securities, represented by the iShares UK Property UCITS ETF (which tracks the FTSE EPRA/NAREIT UK Index of UK listed real estate companies and Real Estate Investment Trusts (REITs)), meanwhile have seen a modest recovery since the lows of October 2023. Performance remains muted owing to the malaise in the commercial real estate sector from economic weakness and changing working patterns that is leaving the office sector with vacancies and falling demand for space..

Fig.4. UK Property securities' 6 month performance



Source: Bloomberg.com

Summary

The potential for falling interest rates once the Bank of England deems inflation to be contained should be supportive for mortgage conditions and therefore houseprices, which could be turning a corner. The outlook for commercial UK property, which is the primary driver for UK property securities funds, remains more mixed.

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