RETTIE & CO. RESEARCH REPORT

MORTGAGE MARKET BRIEFING FEBRUARY 2023

Navigating the choppy waters of the mortgage market

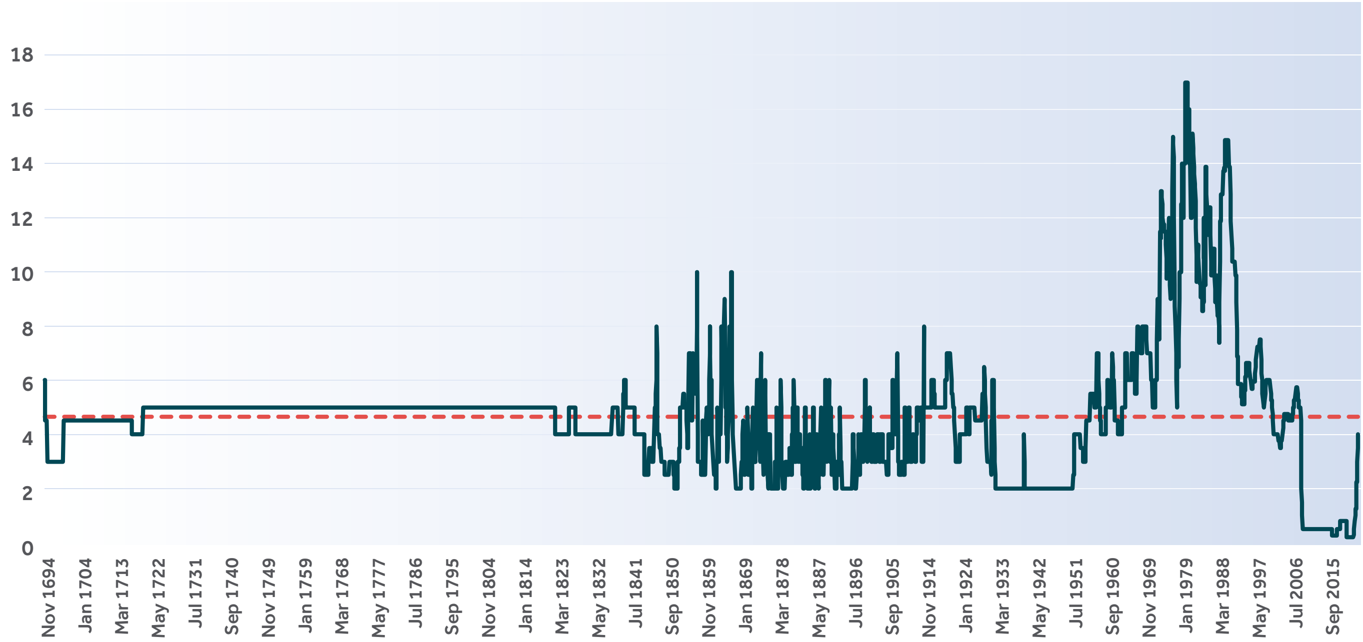
INTRODUCTION

The calm waters of the mortgage market over the last decade or so have got far choppier in recent months.

The very low interest rate environment from the mid-2000s now appears to be at an end as inflationary pressures, predominantly arising from the energy crisis, have led to a sharp rise in interest rates, with mortgage rates being correspondingly affected.

In an historical context, **base rates at 4.0% are not at all unusual**. Over the 300-year plus history of UK interest rates set by the Bank of England, **the average rate is 4.65%**, and the low rates of the last thirteen years are very much an anomaly.

BoE Bank Rate (or equivalent) from 1694 – Long Term Average 4.65%



Markets have settled from the drama of the Kwarteng Mini Budget in September 2022, when expectations were of interest rates moving to around 6% within the next year to 18 months. The Hunt November Autumn Statement has soothed the market and **expectations are now that interest rates will peak at around 4.3% at the end of 2023/start of 2024 and start coming down over 2024**.

Summary of various forecasts from the latest Bank of England Monetary Policy Committee Report 9th Feb 2023

	2023 Q1	2024 Q1	2025 Q1	2026 Q1
GDP	-0.3%	-0.7%	0.2%	0.9%
CPI Inflation	9.7%	3.0%	1.0%	0.4%
LFS Unemployment Rate	3.8%	4.4%	5.0%	5.3%
Bank Rate	3.8%	4.3%	3.6%	3.3%

Bank Rate figures are based on market expectations and are not actual Bank of England forecasts.

KEY FINDINGS

1. Mortgage payments have increased

Mortgage payments have increased because of rising interest and mortgage rates, and this will have an impact on the housing market.

2. Mortgage lending drops back

Mortgage lending in Scotland has also dropped back in recent months, but only modestly and nothing like the downturn in 2008/09.

3. Challenges ahead

2023 will bring challenges, with a likely decline in house prices and transactions

> *Over the 300-year plus history of UK interest rates set by the Bank of England, the average rate is 4.65%, and the low rates of the last thirteen years are very much an anomaly.*

KEY FINDINGS EXPLORED

1. Mortgage payments have increased

Mortgage payments have increased because of rising interest and mortgage rates, and **this will have an impact on the housing market**. For example, the mortgage payment based on average loan to value (LTV) and loan to income (LTI) on an average 2-year fixed rate mortgage has climbed to around £1,200 pcm in Scotland compared to around £800 pcm this time last year, although is now coming down. This impacts on people's affordability and will feed through to house prices. The ratio of earnings to the average house price (based on average LTV and LTI on an average 2-year fixed rate mortgage) is around one-third in Scotland. Although this is an increase from circa 20% in early 2022, it remains within historical precedence and relatively affordable.

2. Mortgage lending drops back

Mortgage lending in Scotland has also dropped back in recent months, but only modestly and nothing like the downturn in 2008/09. Banks are now much better capitalised than before the Global Financial Crisis back then. There is also **strong evidence that mortgage borrowers have been re-mortgaging in advance of the market changes and have been paying down debt to save on interest payments**. These factors will all help to stabilise the market.

3. Challenges ahead

Although 2023 will bring challenges, with a likely decline in house prices and transactions (but not markedly so, in our view) and banks approaching lending more cautiously, it is expected that mortgage rates will fall further in the coming months, despite the base rate rise, and mortgage borrowing can now increase to 5.5 times income because of a less restrictive regulatory environment.

An active trading and mortgage environment is still expected this year and next even with the tougher conditions.

WHAT DOES 2023 LOOK LIKE?

We have all seen the news that the Bank of England has made its 10th consecutive change to the Base Rate, which now sits at 4%. We can expect to see lenders updating their Tracker ranges to reflect these changes which will have an immediate impact on those customers on Trackers Rate Mortgages.

At this point, we have not seen any changes to Fixed Mortgage Rates; however, we can't also rule this out. Looking at our own data they still seem to be dropping slowly in line with market projections and conditions.

Bob Duncan, Managing Director, Rettie Financial Services

- **Fixed rate mortgages are expected to fall.**
- **Residential property sales are likely to be down year on year, but not markedly.**
- **The banks are expected to be cautious.**
- **Borrowing can now increase to 5.5 times income.**

If you are considering buying in the near future, or have a mortgage and want to know how this will impact your payments contact us on financialservices@rettie.co.uk or 03301 759 977.

One of our team of certified Mortgage Advisers, will be happy to review your personal and financial situation and provide you personalised advice. Once you are ready, they will guide through the process and deal with all the paperwork for you.

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