What do rising interest rates mean for the housing market?

Blog

24.03.22

With the release of the spring's mini-budget statement, the potential rate of inflation has risen from 5.00% to an estimated 7.40% this year. It's an estimation that'll leave the UK with the highest level of inflation in the last 30 years, leading to a huge impact on living costs.

Since the housing market began operating again under the 'new normal' 18 months ago, sales have increased. Fuelled by a change in property requirements and the stamp duty holiday, the average property price now exceeds £250,000 and as of October 2021, annual price growth of 9.90% was recorded. With inflation estimated to increase, interest rates will be impacted and are expected to rise, could this impact the property market?

Mortgages

Homeowners with fixed-rate mortgages have little to worry about if and when interest rates increase. Monthly payments will not be impacted, and life will continue as normal. This may evoke some concern in those with variable rate mortgages as rises will take effect on payments straight away. However, experts suggest that if the interest rate increases are spread over the next two years and are gradual, payments should be manageable. If the opposite were to happen – sharp back-to-back increases – the number of people refinancing will likely increase amongst those with variable rate mortgages.

Property prices

Keeping interest rates in check is paramount and the Bank of England is responsible. A slow and steady approach would also help manage any spikes in house prices in the future. This means greater access to properties, particularly for first-time buyers who are having to navigate the £49,257 average price increase that has occurred over the past five years.

Generally speaking, however, the interest rate does not have a direct impact on property prices. It is the repercussions of the interest rate increasing or decreasing that cause price fluctuations. If the interest rate rises (and assuming the majority of people need a mortgage to buy), the cost of a mortgage could become unachievable. Due to this, there would likely be a drop in demand, and this could see lower house prices.

Rental properties

Similarly, whilst a rise in interest rates does not have a direct impact on rental costs, everything can snowball. Interest rates going up mean higher inflation and rental prices often follow suit.

It has not gone unnoticed that rental prices have skyrocketed in 2021 – up 6% annually. The financial ramifications of the past two years have seen a dwindling supply of rental properties which is expected to only be exacerbated further by an interest rate increase. For those who want to buy, inflation and rent increases are making it harder than ever to save for a deposit.

Access to capital

Whilst it has been reported that the Bank of England is unlikely to raise interest rates before Christmas, it is expected to exceed 5% by spring. Mortgage rates will remain high, with the majority of sub 1% rates being pulled from lenders' offerings.

As has been the trend throughout 2021, the housing market will remain busy. However, demand is high with the number of buyers exceeding sellers. This means competition is rife and being a cash buyer or having access to capital is a benefit. TAB HQ is here to support those looking for fast, short-term funding.

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