UK economic crisis leading to soaring housing costs

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11 October 2022

The combined effects of interest rate rises pursued by the world's leading central banks and Chancellor Kwasi Kwarteng's mini budget of giveaways to the super-rich is hiking up UK mortgages and rent. A wave of arrears, bankruptcies, repossessions and evictions is threatened.

Roughly 600,000 mortgages will be renewed in the next six months, meaning nearly 3,300 households a day will have to take on hundreds of pounds a month in extra repayments. Around 2 million coming to the end of a fixed rate deal will have to do the same in the next year. Another 2 million already on variable rate deals will see an immediate increase.

After Kwarteng's September 23 budget, investors led a run on the pound and UK bonds, signalling they expect the Bank of England to raise interest rates to 6 percent by early next year.This led to a mass withdrawal of mortgage deals by high street banks—as much as 40 percent of offers. They have gradually returned, but at much higher repayment rates.

According to data provider MoneyFacts, the average cost of a two-year fixed rate mortgage is 6.43 percent, and a five-year fixed rate mortgage is 6.29 percent—both the highest since the 2008-9 financial crash. These figures sat at just 2.25 percent and 2.55 percent a year ago and have continued to increase over the last three weeks.

Two months before Kwarteng's budget, UK Finance, the banking trade body, was warning that much smaller expected rises in interest rates would lead to two-year mortgage holders losing a quarter of their disposable income to increased repayment charges. Five-year mortgage holders would lose a fifth.

Now the fall will be significantly worse. The Royal Bank of Canada (RBC) has calculated that average mortgage repayments will rise by between £250 and £470 a month, or £3,000-£5,640 a year. As an example, MoneyFacts predicts that a household with a £200,000 mortgage paying back over 25 years would be charged over £400 more a month for a two-year deal than they would have been last December.

According to property market consultancy BuiltPlace, mortgage payments accounted for 20 percent of household income this June. It expects this to rise to 27 percent if mortgage rates hold at 6 percent. This is higher than during the financial crash (24 percent) and close to the all-time high of 30 percent in 1990.

There is a particular squeeze on the rentier landlords with buy-to-let mortgages, the price of which will be paid by renters. "I think a lot of landlords are going to either try to up the rent as much as they can to ensure that they are still making money on their buy-to-lets, or they'll have to try to pump a little bit more equity into those properties to bring their mortgages down," the head of research at Hamptons Aneisha Beveridge told the *New Statesman*.

RBC analysts say passing on these costs could lift rents by £280 a month. They are already at record highs—a UK average of £1,159 a month, rising to £1,945 in Greater London—and paid by some of the most impoverished families in the country.

Sue Anderson, head of media at debt charity StepChange, told Reuters, "Many households can ill afford this extra pressure - nearly one in two British adults are struggling to keep up with household bills and credit commitments, up from 30% in October 2021 and 15% in March 2020."

This is putting it mildly. Millions of households are only keeping up with bills at all by skipping meals and switching off the heating.

The response in the City has been a mixture of joy at the sudden windfall of mortgage payments and concern

that the process might bleed their debtors dry. Reuters wrote bluntly, “While British households head into a winter of soaring energy costs, a tumbling currency and nearly double-digit inflation, the country’s banks are in line for a handsome payday as mortgage prices spike after a decade of stagnation.”

According to market analyst Jefferies, Britain’s largest retail banks—NatWest, Lloyds and Barclays—will grow their revenue by £12 billion by 2024 (a 25 percent increase), in large part thank to fattening mortgage margins.

Reuters continues, “Banks are finding the home loan market stacked in their favour after years of low mortgage rates, but are also aware that bigger mortgage bills could spell trouble for cash-strapped customers.”

John Cronin, banking analyst at Goodbody, told the news service, “The problem is people refinancing at 6%, who were at say 2%, are going to suffer massive outflows of cash to support those mortgage payments.” He added, “My worry is that the banks’ provision models don’t adequately reflect that affordability challenge”.

Jim Leaviss, at investment manager M&G, agreed, “Everyone who rolls off fixed on to variable, or fixed on to a new fixed rate, is going to see their monthly payments go up so dramatically on top of what's going on already around food and energy costs.”

A senior banker explained that though mortgage defaults were currently low, they were typically the last expense to be cut back: “We expect it to be larger scale than normal, and it’s not started yet.”

One of the UK largest mortgage lenders, Santander, has already reported an increase in customers falling behind on mortgage payments. The bank is putting aside extra money to account for defaults. Borrowers’ finances are stress-tested for possible interest rate rises when they apply for mortgages, but the increases are already reaching the limit of these tests.

CEO Mike Regnier told the *Guardian*, “There are lots of customers who… will be paying significantly more than they were doing previously, and that will come as a shock. And some people will find that very difficult.”

Soaring mortgages have intensified concerns about a housing crash already playing out across advanced economies internationally. Adam Slater, from forecaster Oxford Economics, warned, “This is the most worrying housing market outlook since 2007?08,” predicting house prices would fall 13 percent across 2023-24.

A deeper 20 percent fall, BuiltPlace analyst Neal Hudson warned, would leave one in 20 mortgage holders nationally, and one in 10 in London, in negative equity. This is when the value of the house falls below the value of the mortgage used to buy it, making it largely impossible to move or refinance.

Previous crashes have seen house prices fall by 26 percent (2007-9) and 37 percent (the early 1990s).

Popular personal finance adviser Martin Lewis warned on *Good Morning Britain* Monday, “If you’re watching, regulator, Bank of England, government, you need a mortgage emergency plan now, or there’s a ticking timebomb”.