



Falling House Prices

After two and a half years of soaring growth, UK House prices have fallen for the fourth month in a row, including a 1.5 per cent drop in December, while mortgage application approvals recently slumped to their lowest level since the pandemic emerged.

The reason for this shift is mortgage rates, which is impacting buyer affordability. In October, the average two-year fixed rate hit 6 per cent for the first time in 14 years.

With things changing so quickly, it's no wonder current homeowners and first time buyers are finding it increasingly difficult to choose the right mortgage deal.

Why are house prices falling?

In short, because of higher mortgage costs. The Bank of England has raised interest rates nine times since December 2021 to its current level of 3.5 per cent.

With borrowing becoming more expensive, many prospective buyers are now priced out of homes they could previously afford.

So, with demand shrinking, sellers are being forced to drop the asking price. Experts predict that property values will continue to fall throughout 2023, with estimates suggesting falls ranging from 2 per cent to 20 per cent.

Importantly, that's without factoring in inflation which, despite easing slightly last month, remains above 10 per cent. This could mean house values falling by as much as 30% in real terms.

What does that mean for mortgage rates in 2023?

The general opinion is that mortgage rates will gradually decline throughout the year even if the Bank interest rate goes up, with some experts predicting that fixed rates could fall below 4 per cent by early 2024.

The reason is because most lenders priced in higher future interest rates in response to then chancellor Kwasi Kwarteng's September mini-Budget proposals, which shook the mortgage market, with rates rising to levels not seen since the 2008 financial crisis. Rates have reduced slightly since – largely because current chancellor Jeremy Hunt reversed most of Kwarteng's measures – and many lenders are still reviewing their prices.

Who can help me choose the right mortgage product?

Given the impact this could have on your current and future finances, it's wise to explore and consider various options before choosing a product. The good news is this isn't a decision you have to make alone. A mortgage expert will consider your personal circumstances, including current and future affordability, and recommend the most appropriate mortgage deal for you.