United Kingdom

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IN A NUTSHELL

- → The economy grew by 0.1%.
- → House prices grow only 0.4% due to increased mortgage rates.
- → House prices in London were 84% higher than the national average.
- → The average rate on new residential loans was 4.81% in 2023, up significantly from 2.56% in 2022.

MACROECONOMIC OVERVIEW

Economic growth was relatively flat (0.1%), following growth of 4.3% in 2022 as the country recovered from the pandemic. In the final two quarters of 2023 the UK entered a technical recession with two quarters of negative growth. However, this was short lived as the economy grew again in the first quarter of 2024.

The weak performance of the economy in 2023 was predominately a result of high inflation and interest rates which both weakened demand. CPI inflation peaked at 11.1% in October 2022, and fell consistently throughout 2023, but remained above the Bank of England's 2.0% target - ending the year at 4.0%. Whilst higher prices were driven by higher energy costs due to the war in Ukraine, domestically driven inflation was also present. Labour market conditions were tight, with a relatively high number of job vacancies and a weakening participation rate due to prolonged ill health and early retirement. To tackle inflation the Bank of England increased the Bank Rate from 3.50% in January, to 5.25% in August, where it has since remained.

Wages were growing at a slower pace than inflation throughout the first half, meaning real wages continued to fall as they have been falling since mid-2022. However, in the second half of 2023 year wages remained relatively high as inflation continued to fall, and real wages began to grow again.

LOOKING AHEAD

Stronger wage growth and consumer confidence has supported modest growth in the first quarter of 2024. The economy is expected to continue growing this year as inflation continues to fall and real wages continue to grow. It is also widely expected that the Bank of England will ease monetary policy by cutting the Bank Rate by 25 bps this year, or more if there is evidence of lower inflation. A general election will take place on 4 July which may be weighing on businesses and consumer confidence, but this is likely to pass once the election has concluded.

HOUSING MARKETS

After growing by 9.4% in 2022, house price growth stalled in 2023 with prices growing by just 0.4%. This is likely a result of the increase in mortgage interest rates over the year, which followed the increase in Bank Rate and increased affordability pressure on both first-time buyers and home movers. House prices in London were 84% higher than the national average in 2023, and over the year prices fell by 1.3% in the capital. According to the Building Society Association's Property Tracker survey, at the end of 2023 68% of people said affordability of mortgage repayments was a barrier to property purchase. This is the biggest barrier, which has been the case since mortgage interest rates began to increase.

Owing to low interest rates in recent years, more first-time buyers have been able to purchase a property leading to an increase in the owner occupancy rate. In 2022/23 64.8% owned their own home in England, up from 64.3% in 2021/22.

In England there were 149,000 housing starts (down 16% on 176,000 in 2022) and 158,000 completions (down 11% on the 178,000 in 2022). The majority (76%) of new building activity was in the first half of the year, as builders brought forward many projects before the introduction of the Future Homes and Building Standard in 2025. These standards require lower carbon emissions and come at some additional cost to builders. With house prices not expected to grow materially, it is likely that house builders have limited the number of new starts.

The government set a target to create 300,000 net additional dwellings per year by the mid-2020s. This includes converted properties and changing the use of buildings from commercial to residential use. In the financial year of 2022/23 there were 234,000 net additions, which falls short of the target and is the same as the net additions in 2021/22.

MORTGAGE MARKETS

Gross mortgage lending totalled GBP 224 bn, down 29% on the GBP 313 bn in 2022. Due to repayments being higher than new lending, total balances fell slightly from GBP 1,621 bn at the end of 2022 to GBP 1,619 bn at the end of 2023.

The mean LTV ratio on new loans was 69.9% in 2023, down from 71.7% in 2022, which corresponds with the smaller average loan advanced, which was down 5% from GBP 237,000 in 2022 to GBP 225,000 in 2023. The average term on new mortgages continued to rise reaching 29 years in 2023, up from 28 years in 2022 and 25 years 2013, the increase being due to deteriorating affordability.

The average rate on new residential loans was 4.81%, up significantly from the 2.56% in 2022. This reflects the Bank Rate, which increased from 3.50% to 5.25% over the year. With the expectation that the Bank Rate and mortgage rates may have peaked towards the end of the year, there was as increase in new lending on variable rather than fixed rates. In 2023 15% of new lending was at variable rates, up from 5.08% in 2022. Average rates on shorter terms (i.e. 2 year) fixed rates were lower than longer term fixed rates (3 and 5 year) due to markets pricing lower rates.

Arrears increased as higher inflation and interest rates put additional financial strain on households, after record low in 2022 due to low rates and efforts from lenders to offer forbearance for struggling borrowers. At the end of 2022, 0.91% of loans were in arrears (greater than 2.5% in arrears, including those in possession) which increased to 1.17% by the end of 2023. This was the highest level since the end of 2016. The stock of possessions also increased from 3,595 at the end of 2022 to 5,236 by the end of the year. At the end of 2023 around 5 mn mortgages had refinanced onto higher rates since they began to rise at the end of 2021. It is estimated that a further 5 mn households due to reprice by 2026. Consequently, mortgage arrears and possessions are expected to rise in coming years.

In order to help ease the pressure of rising mortgage rates, the Government launched the 'Mortgage Charter' in June. Most UK banks and building societies representing 90% of the market signed up to this. It commits lenders not to force a borrower to leave their home without their consent, unless in exceptional circumstances, in less than a year from their first missed payment. It also allows struggling borrowers to lower their repayments by switching to interest only repayments for six months or extending their term and allowed borrowers to lock in a new deal up to six months ahead of the end of a fixed rate deal. Around 760,000 accounts benefited from one or more of these options, the vast majority took a fixed rate up to six months before their current deal matured, an option which was already offered by many lenders prior to the introduction of the Charter.

MORTGAGE FUNDING

At the end of 2023 outstanding borrowings from lenders via the Bank of England's TFSME (Term Funding Scheme with additional incentives for Small and Medium sized enterprises) was GBP 153 bn, down from GBP 182 bn at the end of 2022 and a peak of GBP 193 bn at the end of 2021. Repayments continue to be made, however in May 2024 the Bank of England announced that some eligible TFSME participants will be able further their TFSME funding from 6 to 10 years.

Lenders raised GBP 37 bn from retail sources, down 50% from the GBP 74 bn in 2022 as households reduced savings due to the increased cost of living, including higher mortgage repayments. Savings interest rates increased over the year as the Bank Rate increased. Instant access rates increased to 2.03% by year end of 2023, from 0.83% in December 2022. Fixed rates increased to 4.79% in December 2023, from 3.33% in December 2022.

There was an increased supply of UK covered bonds. Total issuance during the year was over GBP 20 bn, of which GBP 5 bn was retained by the issuer. The total value of public issues was 20% higher than the previous year and met with good investor demand. Aggregate maturities were approximately GBP 13 bn meaning that the balance of covered bonds outstanding grew for the first time in three years, and at the end of 2023 stood at GBP 87 bn.

GREEN FUNDING

In September 2023, the Government weakened several Net Zero policies related to home energy efficiency and emissions. These include: delaying the ban on installing fossil fuel home heating systems to 2035, instead of phasing them out from 2026; creating an exemption to the phase out of fossil fuel boilers for about one fifth of homes; and abandoning the proposed requirement that landlords upgrade all residential rental properties to EPC 'C' by 2028.

At the same time, the Government increased the grant available under the Boiler Upgrade Scheme (BUS) to GBP 7,500, which helps homeowners installing heat pumps to meet the upfront installation costs. This scheme is part of GBP 6.6 bn committed to improving energy efficiency and install low carbon heating for 2021-25. An additional GBP 6 bn has been committed for 2025 to 2028. However, this and other schemes have fallen short of predicted targets. The BUS expected to provide funding for the installation 50,000 heat pumps through 2023, but the actual figure was less than 19,000.

The Great British Insulation Scheme has similarly underachieved. The scheme has been open since March 2023 and provides GBP 1 bn in funding for home insulation. It was projected to help around 300,000 households install insulation through March 2026. Through March 2024, however, measures had been installed in just 7,720 homes.

The Green Home Finance Accelerator has progressed from the discovery phase to the pilot phase. That scheme is intended to support organisations to develop, and pilot innovate finance propositions that will encourage improvements in domestic energy efficiency, low carbon heating and micro-generation retrofit. Of the 26 projects funded through the discovery phase, 13 have received over GBP 15 mn in funding to further develop and pilot their propositions.

	UNITED KINGDOM 2022	UNITED KINGDOM 2023	EU 27 2023
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	3.0	0.5	0.4
Unemployment Rate (LSF), annual average (%) (1)	3.2	3.6	6.1
HICP inflation (%) (1)	6.2	5.8	6.4
HOUSING MARKET			
Owner occupation rate (%) (1)	n/a	n/a	69.2
Gross Fixed Investment in Housing (annual change) (1)	-1.4	-15.6	-3.1
Building Permits (2015=100) (2)	96.6	73.7	94.0
House Price Index - country (2015=100) (2)	137.0	138.2	170.2*
House Price Index - capital (2015=100) (2)	145.0	149.3	165.1*
Nominal house price growth (%) (2)	1.8	0.9	3*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	324,846	312,510	6,782,375
Outstanding Residential Loans per capita over Total Population (EUR) (2)	59,876	56,934	15,114
Outstanding Residential Loans to disposable income ratio (%) (1) (2)	178.1	201.9	71.3
Gross residential lending, annual growth (%) (2)	n/a	n/a	-26.6
Typical mortgage rate, annual average (%) (2)	2.8	4.9	4.7

* Please note that this value is a simple average of the available values in 2023.

Sources:
(1) Eurostat.
(2) European Mortgage Federation - Hypostat 2024, Statistical Tables.

UNITED KINGDOM FACT TABLE

Which entities can issue mortgage loans in your country?	Monetary and Financial Institutions (MFIs), which includes banks and building societies. Other specialist lenders (non-bank, non-building society UK credit grantors, specialist mortgage lenders, retailers, central and local government, public corporations, insurance companies and pension funds). Other (anything not covered elsewhere).
What is the market share of new mortgage issuances between these entities?	MFIs – 93% Other specialist lenders – 6% Other – 1%
Which entities hold what proportion of outstanding mortgage loans in your country?	MFIs – 90% Other specialist lenders – 7% Other – 3%
What is the typical LTV ratio on residential mortgage loans in your country?	69.9% for loans advances in 2023.
How is the distinction made between loans for residential and non-residential purposes in your country?	The distinction is based on the property being purchased and the purpose it will be used for. A residential loan is used to purchase a property that a person will live in. A commercial loan is one that is used to purchase commercial land or buildings. [We have taken non-residential loans to mean commercial in this context]
What is/are the most common mortgage product(s) in your country?	Initial fixed rate products.
What is the typical/average maturity for a mortgage in your country?	28.7 years for loans advances in 2023.
What is/are the most common ways to fund mortgage lending in your country?	Retail deposits and wholesale funding.
What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?	**Stamp Duty Land Tax** – ranges from 0% to 12%, depending on property value **Valuation fee** – ranges from GBP 150 to GBP 1,500, depending on property value **Surveyor's fee** – ranges from GBP 250 to GBP 600 **Legal fees** – ranges from GBP 500 to GBP 1,500 **Electronic transfer fee** – around GBP 40 to GBP 50
What is the level (if any) of government subsidies for house purchases in your country?	There are no subsidies which apply to house purchase on the whole, there are however some subsidies for specific parts of the market, such as those who live in social housing.