



Will The Cost-Of-Living Crisis Hit Buoyant Housing Market?

Last month, house price growth hit its highest level in nearly two decades, with figures from Nationwide showing an annual increase of 14.3 per cent in March, up from 12.6 per cent in February.

On the face of it, this appears to be great news for everyone in the housing sector, from estate agents to mortgage advisers, as demand is soaring and asking prices are going up.

But the UK is currently experiencing a genuine cost of living crisis, with inflation at its highest rate in 40 years and rising, countless households struggling to pay for food and energy, and analysts expressing very real concerns about a possible recession in the near future.

So what does this mean for the future of the housing market over the next few months? Well, Nationwide does expect to see a slowdown in the near future, despite the recent strong performance.

Chief Economist at Nationwide Robert Gardner commented: “The squeeze on household incomes is set to intensify, with inflation expected to rise further, perhaps reaching double digits in the quarters ahead if global energy prices remain high.”

Mr Gardner also warned that the Bank of England could raise interest rates once again, following the recent increase from 0.75 per cent to one per cent. This, he said, is likely to “exert a drag on the market if this feeds through to mortgage rates”.

However, Rightmove is slightly more optimistic about what lies in store for the housing market, despite the tough economic environment.

Tim Bannister, Rightmove's director of property data, acknowledged there are signs that the recent increase in asking prices is slowing down.

Furthermore, he noted that buyers are taking into account economic factors such as rising interest rates and the increasing cost of living when they're “considering if they can move and the home they're moving to”.

Nevertheless, he said high levels of demand from buyers means sustained price falls are “unlikely”.

Mr Bannister expects to see a slowdown in price growth in the second half of 2022, along with month-on-month price decreases in July and August, and in November and December.

However, he said “that's what we would see in any normal year given the seasonal nature of the market, so it's nothing out of the ordinary”.

What the latest figures say

According to Rightmove's data, the year-on-year house price increase of 14.3 per cent in March was the biggest annual surge since November 2004. This means the price of a typical home in the UK now stands at £265,312 - an increase of £33,000 over the last year.

Figures also showed that house prices in March were 1.1 per cent up on February, which means house prices have gone up for eight months in succession. Meanwhile, the number of mortgages approved for house purchase is now almost ten per cent above where it was before the pandemic.

Inflation has been creeping up steadily for some time and putting pressure on people's finances as a result, so it's significant that the housing market has performed so strongly in the face of such tough economic headwinds.

Many of the underlying factors supporting the housing market, such as strong demand and a limited supply of homes available, could be enough to see it through the cost-of-living crisis in a fairly solid position. As ever, we will keep a close eye on developments in the market and advise you accordingly.