

# HOUSING MARKET CONTEXT FOR MORTGAGE LENDING

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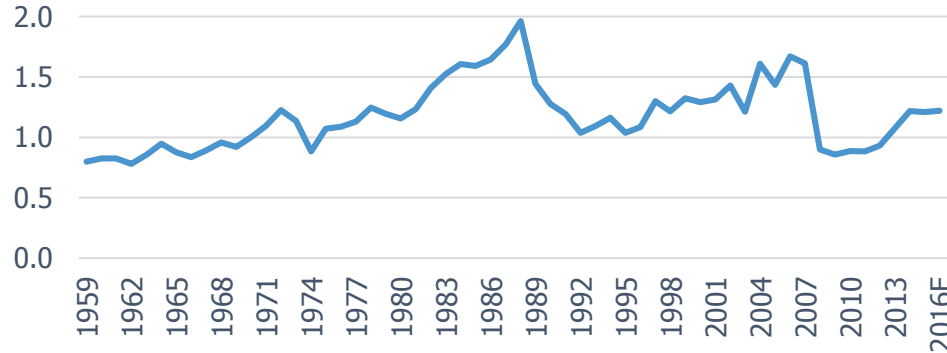
17 November 2016

# OUTLINE

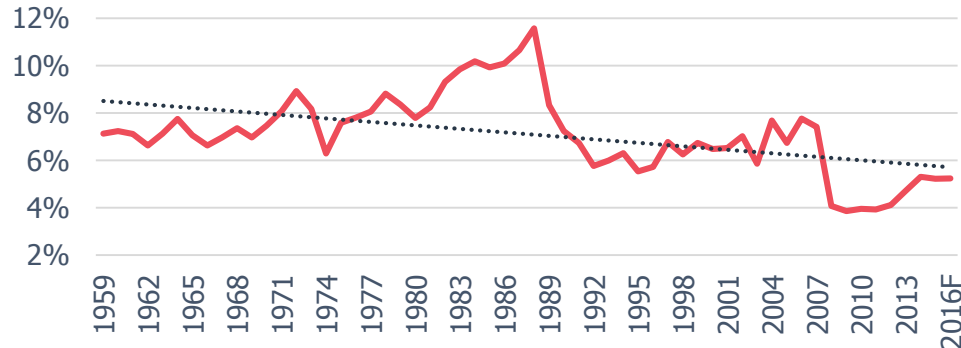
- Transaction volumes
- House price inflation
- Brexit impact?
- Where next for buy to let?
- Outlook for 2017

# HOUSING TRANSACTIONS – A DRIVER OF LENDING VOLUMES

UK housing turnover (pa, millions)



Liquidity - sales as % private stock

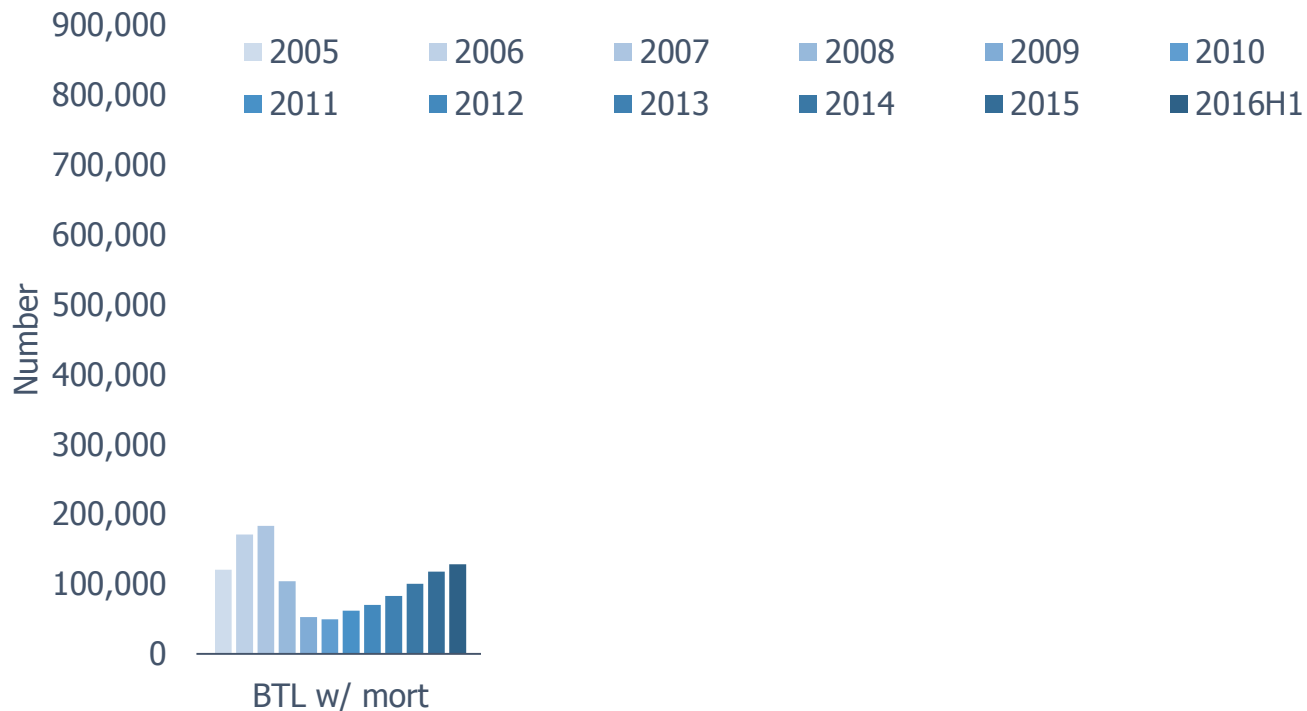


Source: Hometrack

## Liquidity on a declining trend

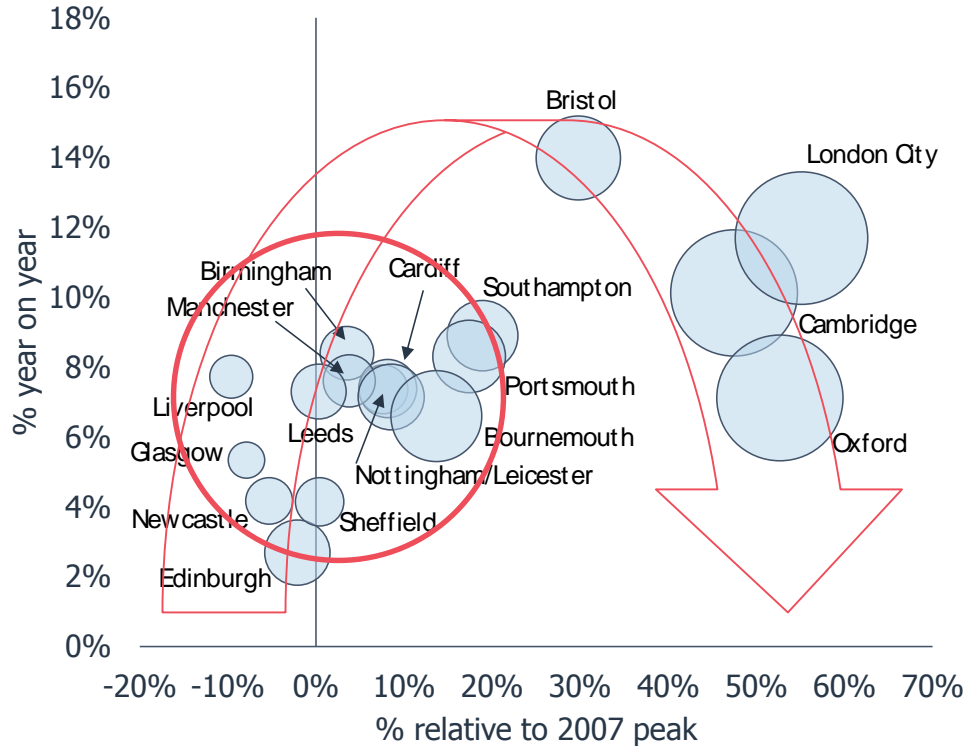
- Creates scarcity, supports higher prices and unaffordability
- Adds to pressure on rental market
- Great news for house builders
- Limits growth potential for home purchase lending

# WHO IS TRANSACTING AND SETTING HOUSE PRICES?



Source: Hometrack, CML, HMLR, ROS

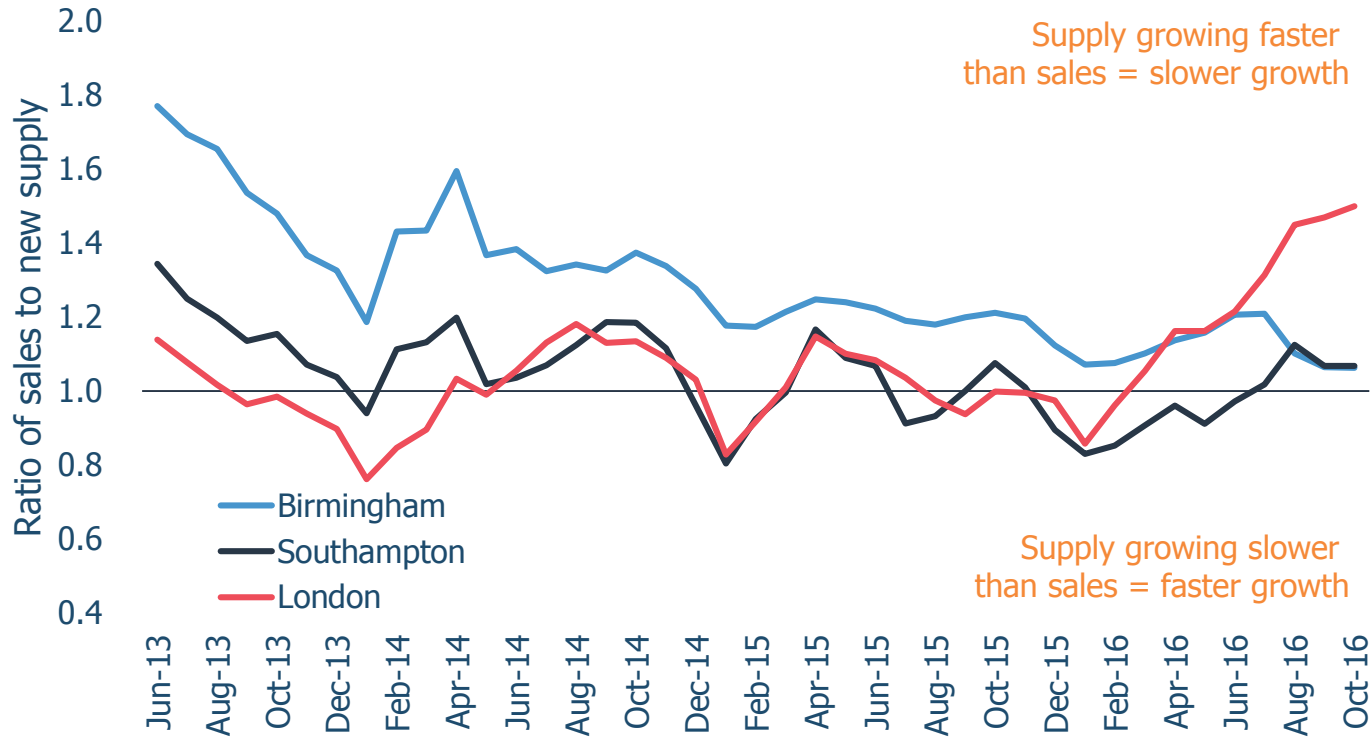
# CITY LEVEL HOUSE PRICE PERFORMANCE



- House price growth reflects strength of economy, buying power of households and confidence
- Near term opportunity for lending growth in more under-valued markets on rising incomes and GDP growth

Source: Hometrack UK City House Price Indices – size of bubble = price/earnings ratio

# WHAT IMPACT BREXIT?



Source: Hometrack UK City House Price Indices – size of bubble = price/earnings ratio

# BUY TO LET MARKET – CASE FOR INVESTING REMAINS

## For

- Yield v other assets/funding costs
- Attractive historic returns
- Leveraged investment
- Tax relief on interest
- Portfolio diversification
- Strength of underlying cashflow

# ASSESSING THE IMPACT OF BTL AFFORDABILITY TESTING

£160,000  
£650 rent pcm  
5% gross yield

## 125% ICR and 4% stress

Max. interest payment  
£520pcm

Max. loan amount @ 4%  
£156,000

Max. LTV  
75% (98%)

Equity  
£40,000



## 145% ICR and 5.5% stress

Max. interest payment  
£448pcm

Max. loan amount @ 5.5%  
£97,750

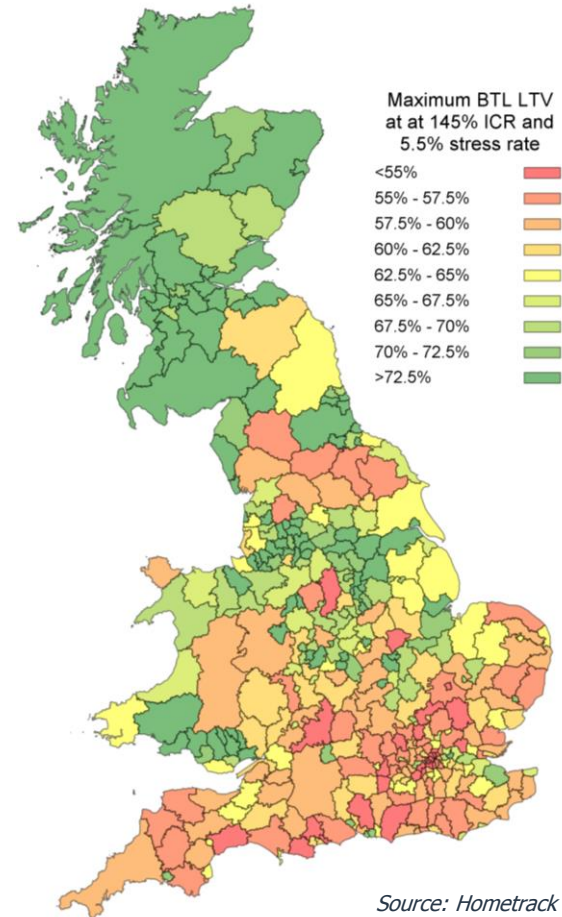
Max. LTV  
61%

Equity  
£62,400



# IMPACT OF 145 ICR AND 5.5% STRESS

- Investors need to inject 10%+ more equity into BTL purchases in 50% markets
- £25k- £35k on average - higher in most expensive markets
- Only 20% markets can still achieve 75% LTV
- Investors shift buying into lower value, higher yielding properties/markets
- Higher LTV borrowers could be trapped with lender in markets with lower rental growth



Source: Hometrack

# OUTLOOK

- Turnover flat, further upside in regional markets
- UK HPI rate to slow to c.3-4% in 2017
- Brexit impact greatest in London
- Lower new business volumes for buy to let
- Structural and regulatory pressures create new opportunity