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What the Bank of England interest rate hike means for people looking to buy a home

Mortgage rates are at their highest in almost 15 years

NEWS By Paul Gallagher
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Property experts are warning over mortgage deals (Image: PA)

Property experts have warned that prospective home buyers relying on a mortgage could face diminished purchasing power and confidence after Thursday's base rate increase.

The Bank of England's decision to elevate the base rate to 5%, the highest in almost 15 years, aimed at reducing persistent high inflation, has prompted experts to predict a shift towards more "realistic" property prices.

The rate hike could force some landlords to sell, increasing the supply of homes available for purchase, but potentially pressuring the rental market. North London estate agent and former residential chairman of the Royal Institution of Chartered Surveyors (RICS), Jeremy Leaf, said, "The green shoots apparent in the housing market at the beginning of the year have started to wilt, despite continuing support from strong employment figures."

Leaf added, "It seems confidence to buy property will only begin to return when core inflation drops to more sustainable levels over a longer period." Matt Thompson, head of sales at London-based estate agent Chestertons, noted, "We expect the rate rise to have an impact on over-leveraged buy-to-let investors whose increased mortgage payments could lead to their investment making limited profit or even a loss."

Mr Thompson further speculated, "This could result in some landlords deciding to offload their assets. At this stage, we haven't yet encountered homeowners who have been forced to sell up but, if rates continue to rise, some owners may be forced to review the situation and weigh up their options."

Despite this, demand for properties in London remains robust due to its appeal to diverse buyer demographics, including international buyers. Nathan Emerson, CEO of property agents organisation Propertymark, stated, "It's undisputed that homeowners and first steppers will be facing the consequences of rising interest rates as borrowing costs increase."

Mr Emerson added, "However, with this comes a further shift towards more realistic and sustainable house prices, down from the spike seen during the pandemic." On a positive note, Mr Emerson cited recent increases in the supply of homes, offering buyers more negotiation leeway and choice.

Earlier this week, Rightmove reported the average price of a newly listed UK home dropped by £82 in June, marking 2023's first monthly decrease. Further indicators of a slowing market include the Office for National Statistics' (ONS) report, stating the average UK house price in April was £7,000 below a peak in September 2022.

Kundan Bhaduri, director of London-based property developer and portfolio landlord at the Kushman Group, said, "This latest hike, without a doubt, could slow down the property market as potential buyers scuttle away." Potters Bar-based financial adviser at MortgageShop.com, Gary Bush, echoed this sentiment, predicting, "The London and South East property markets will slow to a grinding halt now I think."

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Jason Tebb, CEO of property search website OnTheMarket.com, warned, "The 13th rate rise in as many meetings will further exacerbate increasingly stretched affordability and is set to have a negative impact on the confidence of the average property seeker relying on a mortgage." He added, "Serious buyers and sellers continue to engage with each other, but with the former having potentially even less purchasing power after today's announcement, the sensible pricing of property coming to market is essential."

Finally, Rightmove's mortgage expert Matt Smith offered some optimism: "If today's news does provide some reassurance to the markets, then we'd hope to see some stability return to the mortgage market which will help those looking to take out a mortgage this year to plan ahead." He pointed to Rightmove's data, showing an increase in inquiries and daily visits to their mortgage-in-principle service, indicating that higher interest rates are making people reassess their budgets rather than abandon their plans.

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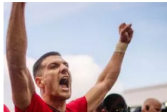
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