The new 'normal' – prospects for 2025 and 2026

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Executive summary

- **We estimate that gross mortgage lending rose to £237.5 billion in 2024, up 6% on the previous year.** Lending for house purchase accounted for all the increase, rising £18 billion to £151 billion. Remortgaging declined by 6% to £78 billion and other lending rose slightly to £8.5 billion. Lower mortgage rates supported higher activity.

- **The buy-to-let market also recovered after a sharp contraction in 2023, with gross lending estimated to have reached £33.2 billion in 2024, 10% above the 2023 total.** Buy-to-let house purchase lending showed a slightly faster increase of 12% to £9.6 billion. In contrast to the wider market, buy-to-let remortgaging rose, reflecting improved affordability.

- **We expect gross mortgage lending to reach £275 billion in 2025 (up 16%), rising further to £295 billion in 2026 (up a further 7%),** with house purchase lending of £177 billion and £190 billion respectively and remortgaging of £88 billion and £94 billion. Lower interest rates and a high rate of refinancing are expected to support lending in 2025.

- **We forecast a rise in buy-to-let lending in 2025 to £38 billion (up 14%) and £42 billion in 2026 (11% ahead)**, supported by improved affordability as interest rates fall and rents continue to rise. The rise in the stamp duty surcharge for additional properties announced in the budget will marginally reduce the flow of new landlord purchases while the Renters Rights Bill, which could come into force in 2025, is likely to lead to more landlords selling up. The net result will be a further worsening of the supply shortage, pushing rents up.

- **Despite the higher interest rates seen since 2022, mortgage arrears have started to fall slightly.** Although some borrowers still face an upward payment shock when they next refinance, almost a third are likely to see reduced monthly payments, having already moved onto higher rates. Consequently, we see arrears over 2.5% of the loan balance falling to 100,000 in 2025 and 90,000 in 2026.

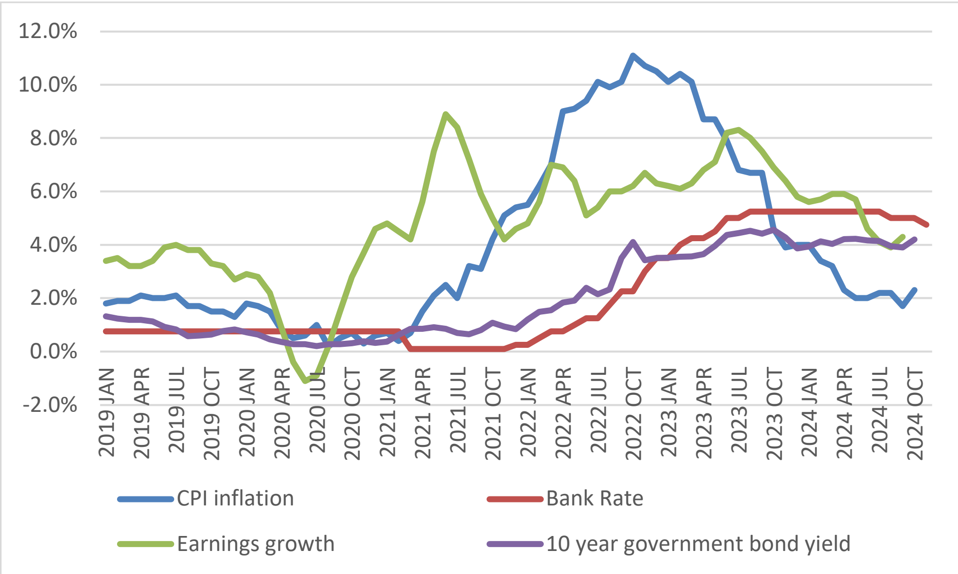
- **We estimate that 50% of funds used in house purchases in 2024 were borrowed, a sharp rise on the previous year.** Despite this, the aggregate loan-to-value (LTV) of the UK private housing stock fell to an estimated 22.5%, a modern low.

1. The market in 2024

1.1 Economic stability gradually returns

So far this decade the UK economy has faced four major shocks in the Covid pandemic, Brexit, the Russian invasion of Ukraine and the market disruption that followed the mini-budget of September 2022. The shadow cast by these events still hung over the economy in 2023, keeping inflation and interest rates at elevated levels. But in 2024, the path back to a more stable environment was evident as inflation, interest rates and earnings growth all fell back, as illustrated by Chart 1.

Chart 1 – Inflation, interest rates and earnings growth



Source: ONS, Bank of England

As the economy has gradually stabilised we are beginning to get a clearer picture of what the new normal might look like. It seems that we are not returning to the ultra-low interest rates that characterised the period from the financial crisis up to 2022. This is best illustrated by long-term government bond yields, which are determined by what investors believe is a reasonable return for a risk-free investment that needs to take account of future inflation. As Chart 1 shows, 10-year government bonds have repriced, shifting yields from sub-1% to over 4%.

A similar repricing has occurred in other advanced economies, suggesting that global investors are more concerned about future inflation and the level of government debt. When debt becomes high relative to output, governments can be tempted to inflate away its value by increasing the money supply. But fears that inflation will remain higher than in the pre-Covid period also stem from relatively tight labour markets and demographic trends, with the large baby boomer generation starting to leave the workforce and enter retirement.

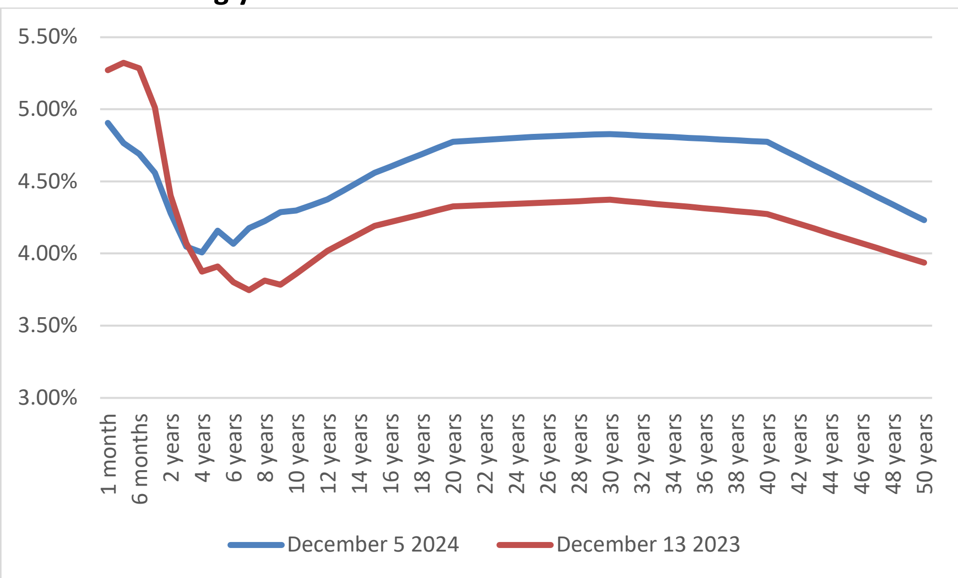
The emergence of political pressures to reverse the process of globalization is another factor that could keep underlying inflation higher. The US has already imposed additional tariffs on imports from China and elsewhere and President elect Donald

Trump is promising more (see Section 4 for a fuller discussion of what a Trump presidency might mean for the UK economy, housing and mortgage markets). As tariffs increase the cost of imported goods, a trade war between the US and other countries could result in higher inflation everywhere. How long all these different effects will last is unclear, although the demographic changes, which point to an on-going labour shortage, is a long-term effect that will play out over the next decade and beyond.

1.2 Interest rate stability returns

The volatility in the government bond market that followed Kwasi Kwarteng's September 2022 mini-budget drove a sharp rise in swap rates, which lenders use to price fixed-rate mortgages. Although the market has become more settled since then, there have been a couple of subsequent spikes in bond yields in mid-2023 following poor inflation figures and after Rachel Reeves' budget in October 2024, when she announcement plans to borrow more to invest.

Chart 2 – Sterling yield curve



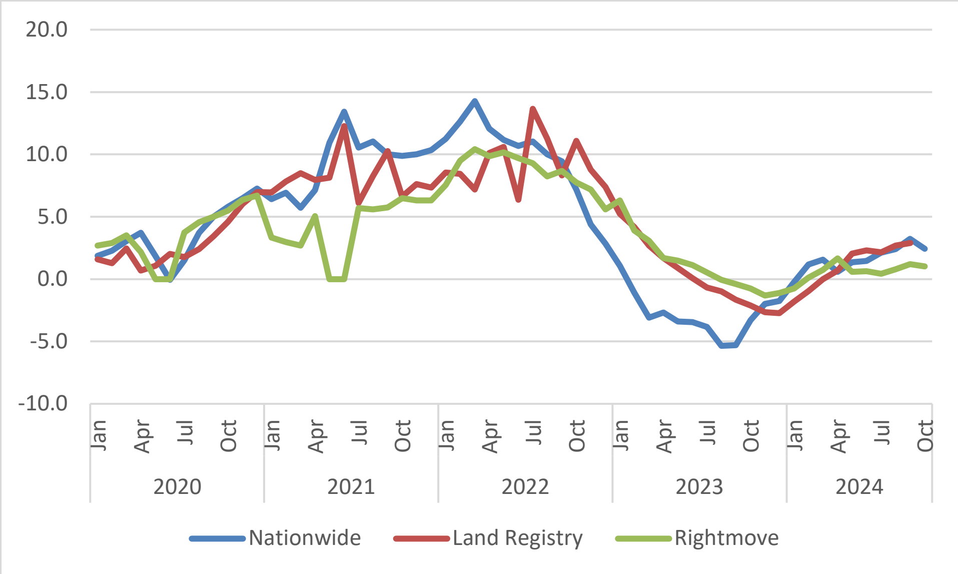
Source: World government bonds.com

As a result, longer-term interest rates have not fallen back to the levels we were used to before the Covid pandemic. Indeed, as Chart 2 shows, other than at the short end of the yield curve, for borrowing up to three years, interest rates are higher now than a year ago. But the cuts in Bank Rate from 5.25% to 4.75% have signaled to businesses and consumers that interest rates have passed their peak, although with the higher spending and borrowing announced in the budget they may not fall as quickly as previously anticipated.

1.3 Housing market remains resilient

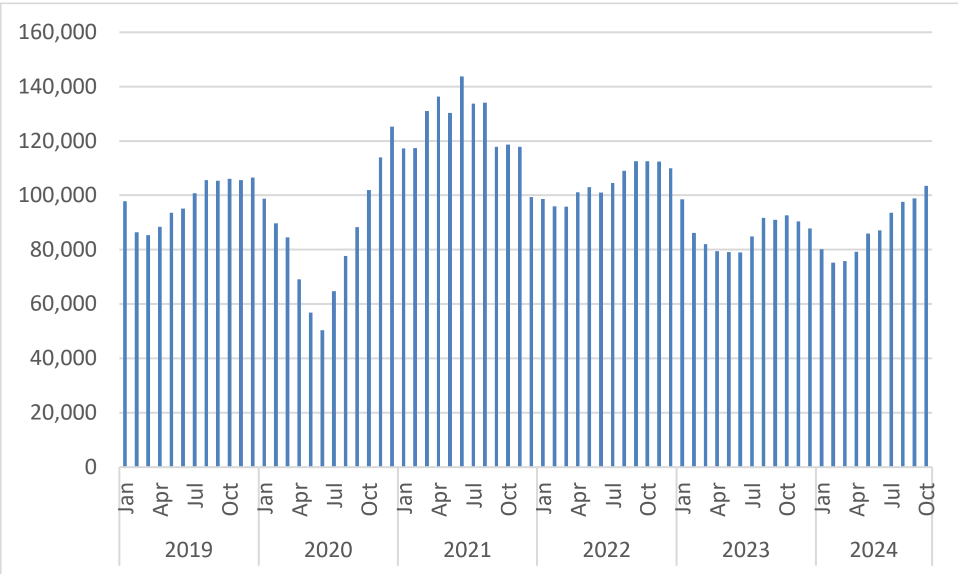
After the strong housing market of 2021 and 2022, 2023 was the year when higher interest rates cooled activity. But in view of the scale of rate increases, the housing market remained remarkably resilient. Although housing turnover fell back, house prices as measured by the Land Registry actually rose fractionally year-on-year in 2023. By 2024, it was clear that the market had adjusted quite well to higher rates, with house prices rising again (see Chart 3) and turnover recovering (Chart 4).

Chart 3 – UK house prices (12 month % increase)



Source: Nationwide Building Society, Rightmove and Land Registry

Chart 4 – UK property transactions (3 month rolling average)

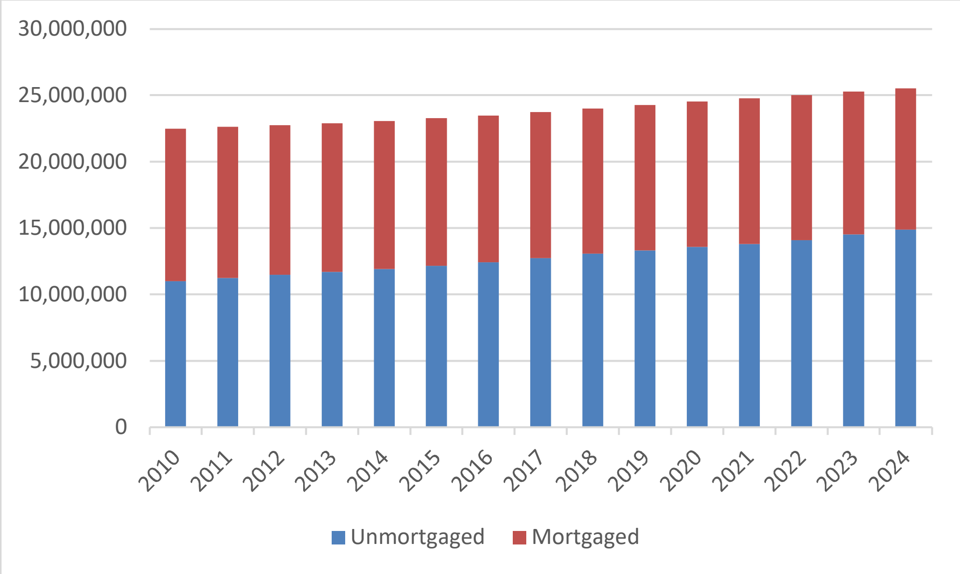


Source: HMRC

Why has the housing market performed so robustly over the past year despite interest rates remaining quite high? The chronic under-supply of housing remains a factor of course. But the rising proportion of the private housing stock that is not mortgaged played an important role too. As recently as 2011, more than half the private housing stock was mortgaged. In 2024, we estimate that less than 42% had an outstanding loan and the unmortgaged housing stock has risen from 11.0 million in 2010 to an estimated 14.9 million in 2024 (see Chart 5). This reflects the growing number of baby boomers who have reached the age when they have paid off their mortgage and their numbers have not been matched by new first-time buyers.

When unmortgaged households move, often because they are downsizing, the level of interest rates is not much of a factor in their decision making. With an estimated 47% of buyers paying in cash in 2024, compared to only 34% in 2006, their influence on the market should not be under-estimated. This trend is set to continue as more baby boomers pay off their loans.

Chart 5 – UK private housing stock (mortgaged and unmortgaged)

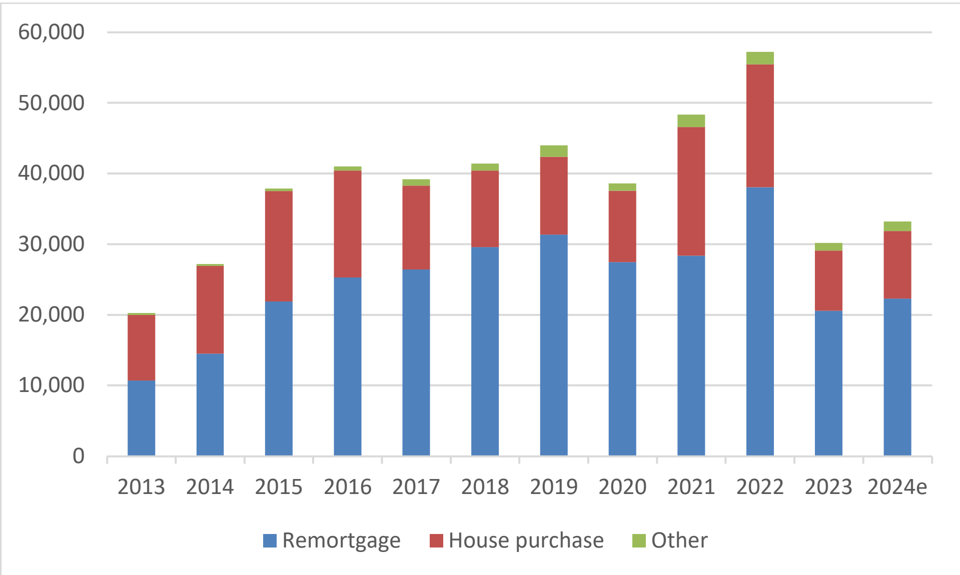


Source: Ministry of Housing, Communities and Local Government, UK Finance. Partly estimated

1.4 Buy-to-let recovers

While 2023 was a weak year for housing activity in general, it was particularly difficult for the buy-to-let market, which saw its weakest lending performance since 2014 (see Chart 6) after a record year in 2022. It was hit harder by rising mortgage rates, with some borrowers struggling to meet lending affordability requirements.

Chart 6 – Buy-to-let lending (£ million)



Source: UK Finance

As affordability pressures eased, through a combination of lower interest rates and rising rents, a meaningful recovery got underway in 2024, with gross lending rising from £30.2 billion in 2023 to a projected £33.2 billion in 2024. But the number of outstanding buy-to-let mortgages continued to fall, dropping 31,500 in the nine months to September. This could reflect landlords paying off mortgages, but anecdotal evidence from estate agents suggests a rise in the number of landlords selling, especially amongst non-portfolio landlords with a small number of properties in their own name, who have found the combination of higher taxes and increased regulation challenging. The result has been a worsening of the already chronic under-supply of private rented accommodation, though this should help to underpin the commercial viability for remaining landlords through lower voids and higher rents.

2. The mortgage market outlook for 2025 and 2026

2.1 Broader economic environment in 2025 and 2026

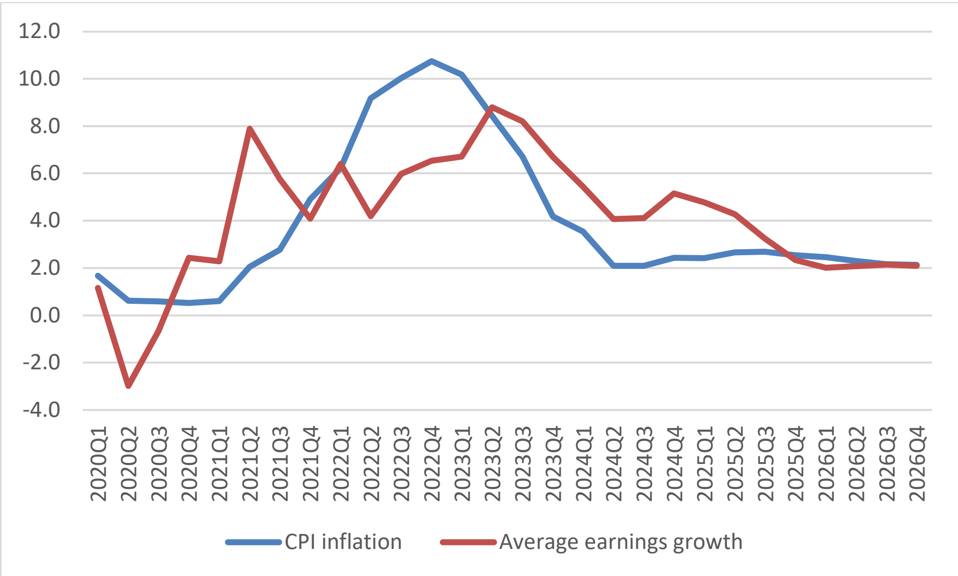
Table 1 – key forecast assumptions

	Past values		Forecast values				
	2023	2024e	2025f	2026f	2024/23e	2025/24f	2026/25f
Real GDP (£bn)	2,535	2,560	2,598	2,650	1.0%	1.5%	2.0%
Unemployment rate (Q4)	3.8%	4.4%	4.6%	3.8%	15.8%	4.5%	-17.4%
CPI inflation rate (Q4)	4.2%	2.5%	2.4%	2.6%	-40.5%	-4.0%	8.3%
Earnings growth (Q4)	6.7%	4.4%	3.5%	3.0%	-34.3%	-20.5%	-14.3%
Current account (£bn)	-53	-75	-60	-60	41.5%	-20.0%	0.0%
House prices (average for year)	281,094	286,353	298,000	310,000	1.9%	4.1%	4.0%
Housing transactions (UK, thousands)	1,019	1,100	1,200	1,250	7.9%	9.1%	4.2%
10-year government bond yield (Q4)	4.2%	4.4%	4.0%	4.2%	4.8%	-9.1%	5.0%
Bank Rate (Q4)	5.25%	4.75%	4.25%	4.00%	-9.5%	-10.5%	-5.9%

Source: IMLA, ONS, Land Registry, HMRC, Bank of England

Table 1 shows our forecast for key macroeconomic variables, as well as our house price and turnover projections, which underpin our mortgage market predictions. We expect growth to pick up in 2025 and 2026, as a result of lower interest rates, rising real incomes and higher government consumption and investment. The recovery in real earnings is evident in the Office for Budget Responsibility (OBR) predictions shown in Chart 7, with earning growth exceeding CPI inflation until the end of 2025, although we expect real earnings growth to be stronger still, remaining positive in 2026.

Chart 7 – OBR October 2024 projections for earnings growth and inflation



Source: Office for Budget Responsibility (OBR)

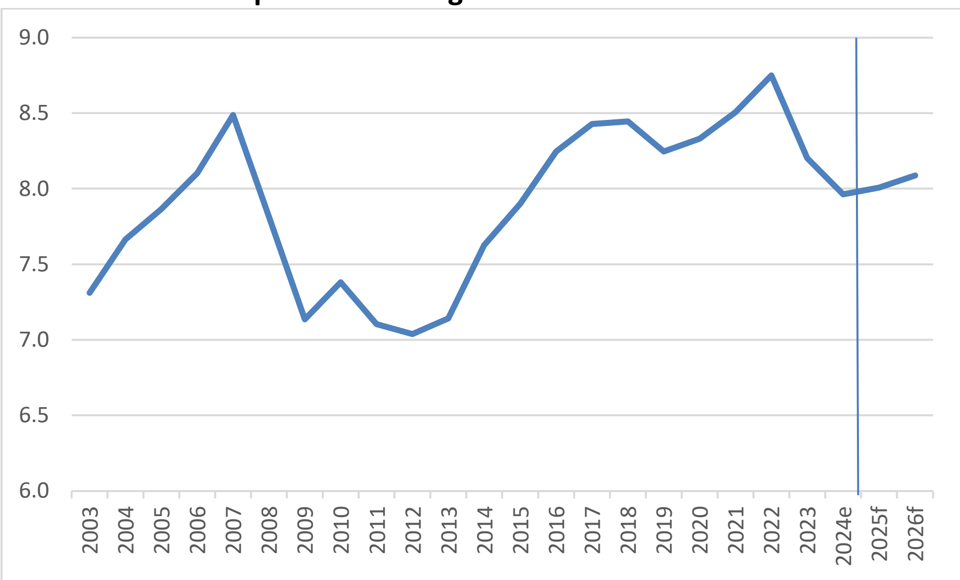
There has been some criticism of government measures from the business community, with concern about the tax increases seen in the budget, particularly the rise in employers' national insurance, and about other government proposals such as the Employment Rights Bill, which increases protection for workers but reduces employers' flexibility in managing their workforce. OBR modelling suggests that higher taxes and government spending may reduce growth over the longer term but over our forecast horizon these policies are likely to boost growth. In contrast, government plans to reform the planning system to allow for more housebuilding and new infrastructure projects may boost output in the longer term but, given the long lead-times with investment projects and housebuilding, cannot be expected to have much impact in 2025 and 2026.

It is international developments that pose the greatest risk to our forecast. Donald Trump's proposal to introduce tariffs on all imports into the US would hit UK exports if it were enacted, denting output. If the UK responded with retaliatory tariffs on US exports, UK inflation would be higher, which might keep interest rates higher. Also, concerns about higher Federal budget deficits under Trump might raise global interest rates. On a more positive note, however, if a Trump presidency led to a rapid resolution of the war in Ukraine this could reduce global energy and food prices, which might allow for slightly lower interest rates.

2.2 Outlook for the UK housing market

The last time Bank Rate was at 4.75% was the fourth quarter of 2006. At that time, CPI inflation was 2.7%, unemployment was 5.5%, the house price earnings ratio was 8.5 (see Chart 8), new borrowers were spending 16% of their income on mortgage interest and house prices were rising by 10% per annum. So while mortgage affordability might look stretched relative to the past decade, comparisons to the pre-financial crisis era are actually quite favourable.

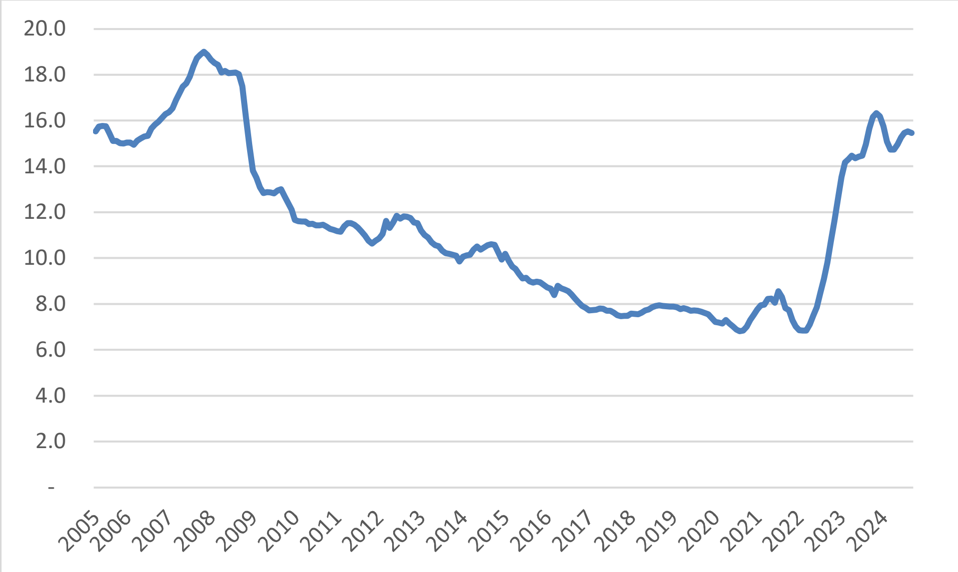
Chart 8 – UK house price to earnings ratio



Source: ONS, Land Registry

Indeed, it could be said that we are now in a housing market that most closely resembles that of the years immediately preceding the financial crisis. Perhaps the most meaningful guide to affordability, the proportion of income that new borrowers are spending on mortgage interest, which is shown in Chart 9, is very similar to the level recorded when Bank Rate was last 4.75% in 2006 at 15.5%. And in that earlier period, this level of affordability was still consistent with a strong housing market, suggesting the market can remain robust going forward.

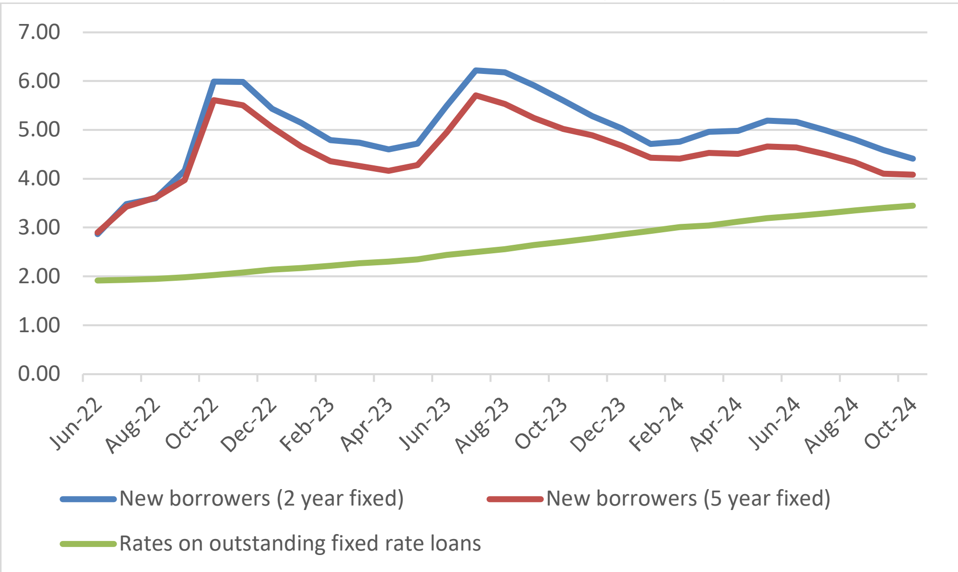
Chart 9 – % of income spent on mortgage interest (all new borrowers)



Source: UK Finance

Indeed, as Chart 10 shows, most of the repricing of the existing average rate on all outstanding mortgages (rather than just new ones being taken out) has already occurred, such that by October 2024 the average rate paid by existing fixed-rate borrowers was 3.5% compared to 2.7% a year earlier and only 63bp below the average 5-year fixed rate for new borrowers.

Chart 10 – % interest rate on new and existing mortgages

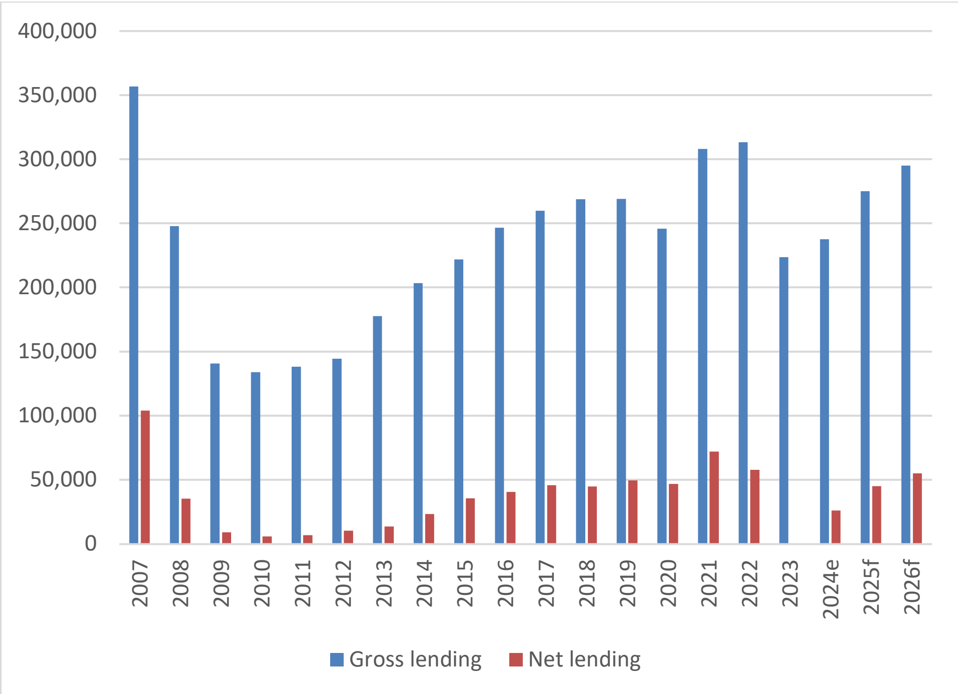


Source: Bank of England

With a relatively stable environment and gradually improving affordability, we expect house prices to rise by around 4% in each of 2025 and 2026 and housing turnover to rise to 1,200,000 in 2025 and 1,250,000 in 2026. The house price earnings ratio will remain around 8 while the value of property transactions could rise by 14% in 2025 and 8% in 2026.

2.3 Mortgage market forecast for 2025 and 2026

Chart 11 - Forecasts for gross and net lending (£m)



Source: Bank of England and IMLA

We expect total gross mortgage lending to rise to £275 billion in 2025, increasing further to £295 billion in 2026 (see Chart 11), driven by a further modest improvement in affordability. Stronger gross lending is reflected in sharply higher net lending, which we forecast to rise to £45 billion in 2025 and £55 billion in 2026.

70% of the growth in gross lending in 2025 comes from lending for house purchase which reaches £177 billion but we also expect remortgage activity to rebound by 13% to £88 billion, reflecting the higher number of customers reaching the end of their fixed-rate period.

The share of lending conducted through intermediaries has been on an upward trajectory in recent years but the rate of increase has slowed slightly. Although we still expect intermediaries to account for more than 90% of lending, we now expect this threshold to be reached later than previously expected, in 2026.

Table 2 – Mortgage market forecast

Gross mortgage lending (£m)

	2023	2024e	2025f	2026f	2024/23e	2025/24f	2026/25f
House purchase	132,685	151,000	177,000	190,000	13.8%	17.2%	7.3%
Remortgage	82,733	78,000	88,000	94,000	-5.7%	12.8%	6.8%
Other	8,291	8,500	10,000	11,000	2.5%	17.6%	10.0%
Total	223,709	237,500	275,000	295,000	6.2%	15.8%	7.3%
of which:							
Buy-to-let lending	30,184	33,203	38,000	42,000	10.0%	14.4%	10.5%
of which for house purchase	8,523	9,567	10,500	12,000	12.2%	9.8%	14.3%
Buy-to-let share of total	13.5%	14.0%	13.8%	14.2%	3.6%	-1.2%	3.0%
Lending via intermediaries*	161,418	174,333	205,000	225,000	8.0%	17.6%	9.8%
Share of total*	86.7%	87.4%	88.7%	90.8%	0.8%	1.6%	2.3%
Net lending	45	26,101	45,000	55,000	57902.2%	72.4%	22.2%
Product transfers	239,789	220,920	240,000	260,000	-7.9%	8.6%	8.3%
2.5%+ arrears (thousands Q4)	107,260	104,630	100,000	90,000	-2.5%	-4.4%	-10.0%
Possessions (thousands)	4,800	6,500	8,000	9,000	35.4%	23.1%	12.5%

* Regulated loans only

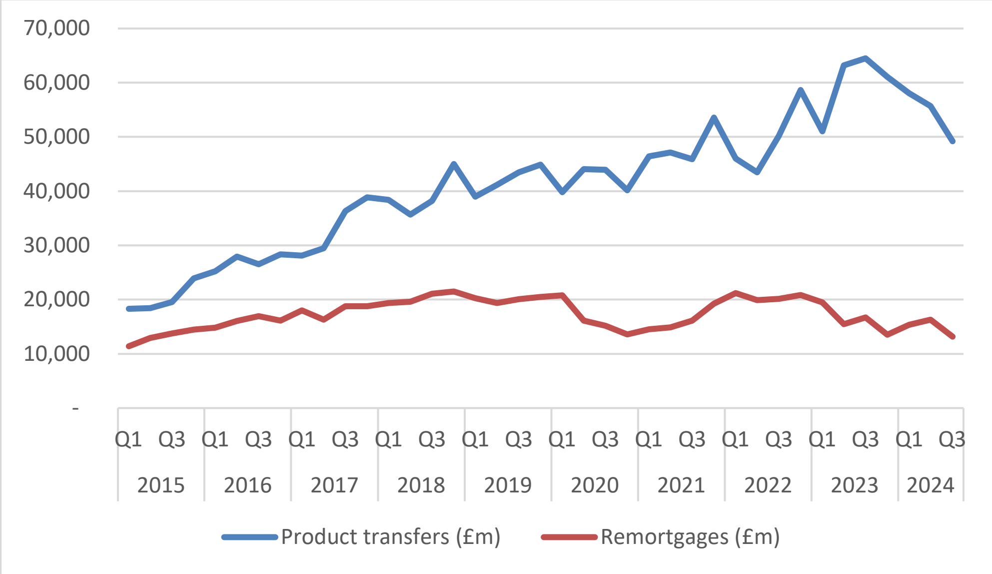
Source: IMLA, Bank of England, UK Finance

The sharp rise in mortgage arrears we were predicting for 2024 did not materialise and by the third quarter the rate of arrears actually fell slightly. Although some borrowers have not experienced a mortgage repricing yet, almost a third of those refinancing in 2025 are likely to see their rate go down as they have already repriced in the higher interest rate environment we have seen since 2022. As a result, we now expect arrears of more than 2.5% of loan balances to fall from a projected 0.98% of accounts at the end of 2024 to 0.94% by the end of 2025, with a further fall to 0.85% in 2026. Despite the overall fall in arrears, we expect the number of mortgage possessions to rise in 2025 and 2026, reflecting the backlog of longer-term arrears, the one category that has not experienced a decline recently.

2.4 Product transfers and remortgages

The previously relentless rise of product transfers reversed somewhat in 2024 (see Chart 12). 2023 saw a large shift from remortgaging to product transfers as higher rates made affordability more challenging but we expect the fall in the number of product transfers to be greater than that of remortgages in 2024 with remortgaging enjoying a larger rise in 2025. As affordability gradually improves, more opportunities are opening up for borrowers to save by switching lender.

Chart 12 – Value of product transfers/remortgages (quarterly £billion)



Source: UK Finance

2.5 Buy-to-let mortgage market forecast

Gross buy-to-let lending staged a recovery in 2024 after a difficult 2023, when higher rates meant some borrowers failed lenders' affordability assessments. As interest rates gradually fall over the forecast period, affordability should improve further, supported by high levels of tenant demand and a continued increase in rents.

Table 3 – Buy-to-let and wider mortgage market forecasts compared

	2023	2024e	2025f	2026f	2024/23e	2025/24f	2026/25f
Whole market							
Outstanding debt (£bn)	1,619	1,645	1,690	1,745	1.6%	2.7%	3.3%
House purchase lending (£m)	132,685	151,000	177,000	190,000	13.8%	17.2%	7.3%
House purchase % churn	8.2%	9.3%	10.6%	11.1%	13.0%	14.7%	4.2%
Remortgage	82,733	78,000	88,000	94,000	-5.7%	12.8%	6.8%
Remortgage % churn	5.1%	4.8%	5.3%	5.5%	-6.4%	10.4%	3.7%
Total % churn	13.8%	14.6%	16.5%	17.2%	5.4%	13.3%	4.2%
Buy-to-let market							
Outstanding debt (£bn)	296	298	302	307	0.7%	1.3%	1.7%
House purchase lending (£m)	8,523	9,567	10,500	12,000	12.2%	9.8%	14.3%
House purchase % churn	2.9%	3.2%	3.5%	3.9%	12.9%	8.6%	12.6%
Remortgage	20,584	22,295	26,000	28,000	8.3%	16.6%	7.7%
Remortgage % churn	6.9%	7.5%	8.7%	9.2%	8.9%	15.4%	6.1%
Total % churn	10.1%	11.2%	12.7%	13.8%	10.6%	13.3%	8.9%
Buy-to-let % of total market							
Outstanding debt	18.3%	18.1%	17.9%	17.6%	-0.9%	-1.4%	-1.5%
House purchase lending	6.4%	6.3%	5.9%	6.3%	-1.4%	-6.4%	6.5%
Remortgage	24.9%	28.6%	29.5%	29.8%	14.9%	3.4%	0.8%
Total lending	13.5%	14.0%	13.8%	14.2%	3.6%	-1.2%	3.0%

Source: Bank of England, UK Finance and IMLA

However, landlords face a number of headwinds. The budget decision to increase the stamp duty surcharge for additional properties from 3% to 5% reduces the attractiveness of new investment. In Scotland's budget, the equivalent tax, known as the Additional Dwellings Supplement under the Land and Buildings Transactions Tax, was raised from 6% to 8% while there was also a 1 percentage point rise in Wales. Naturally, some landlords sell up and leave the sector each year for a variety of reasons and these higher surcharges may limit the extent to which they are replaced by new investors.

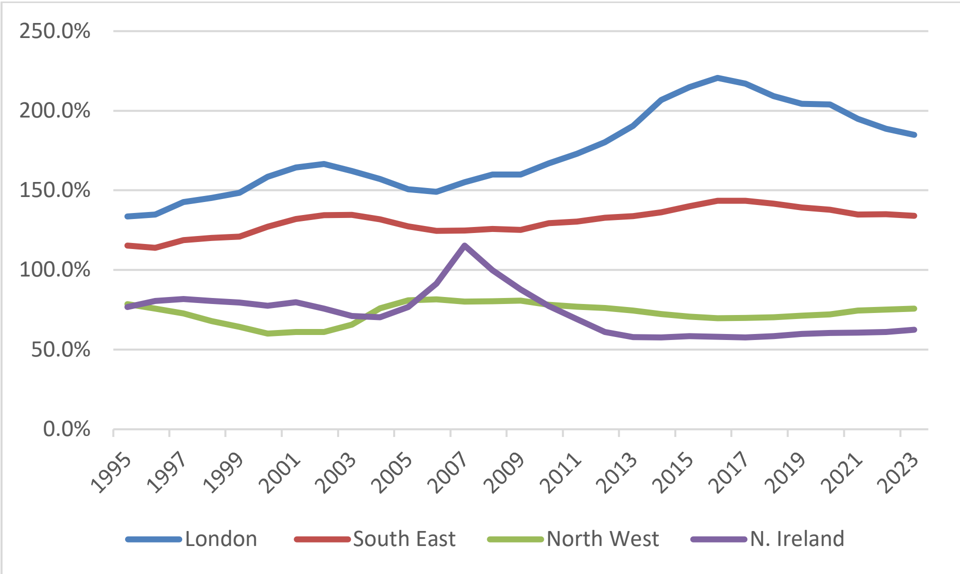
The Renters Rights Bill is also a source of concern to many landlords, as it imposes increased costs and risks. On top of this, the new government has announced its intention to reinstate the requirement that all private rented property must achieve a minimum C rating Energy Performance Certificate by 2030. In our recent publication *The vital role of the private rented sector* (November 2024) we warned of the risk that these policies will further exacerbate the most acute problem with the sector, namely the chronic under-supply of properties relative to tenant demand. Tenants are likely to bear the brunt of these changes through less choice and higher rents.

3. Regional housing markets

3.1 The London housing powerhouse

While we usually talk about the UK housing market, we know it is comprised of a series of local and regional markets that rarely operate in unison even though they are subject to many of the same broad economic influences such as mortgage rates and wage growth. The most striking trend of the past three decades is the outperformance of the London market and, to a lesser extent, that of South East England.

Chart 13 – House prices relative to the UK average (selected regions)

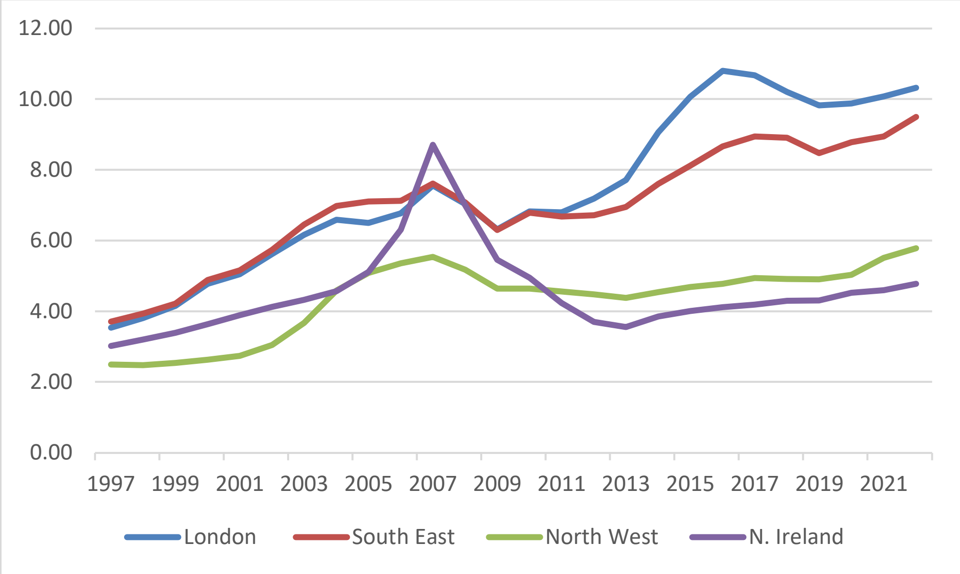


Source: Land Registry

Chart 13 shows how house prices in selected regions have varied compared to the national average. In 1995, when the housing market was emerging from a long slump, the average London property was a third more expensive than the nationwide average. By 2016, the London premium had grown to 120% and was still 85% in 2023. In other words, London has seriously outperformed other regions. Why is this the case?

We can see whether it is the result of faster earnings growth in the capital. Chart 14 shows the average house price to earnings ratio for the same selected regions. What it shows is that London's outperformance is not the result of higher wage growth: the house price to earnings ratio has also risen much faster in London and the South East than elsewhere. Indeed, from 1997 to 2022 earnings grew slightly more slowly in London than across the nation as a whole (a 101% rise against 103% for the UK as a whole).

Chart 14 – House price to earnings ratios



Source: Land Registry, ONS

While wages have not grown more quickly in the capital, the economy as a whole has. Table 4 shows the change in regional GDP between 1998 and 2022. London's economic growth rate far exceeds any other region at 187%, powered by strong population growth: the resident population rising from 7.2 million in 2001 to 8.9 million in 2023, a 25% rise, against 15% for the UK over the same period. Indeed, London is the only region in which the rate of population growth has outstripped that of the housing stock over this period.

Table 4 – Regional GDP (£ billion)

	1998	2022	% growth
London	180,830	519,178	187%
South West	67,077	172,264	157%
Northern Ireland	19,613	49,901	154%
North West	88,089	219,707	149%
South East	135,784	336,218	148%
East	77,553	189,303	144%
Yorkshire and The Humber	62,633	151,325	142%
East Midlands	54,269	128,795	137%
Scotland	69,965	165,714	137%
Wales	32,715	74,545	128%
West Midlands	70,549	160,370	127%
North East	28,815	63,107	119%

Source: ONS

3.2 Outlook for the coming years

Will London's housing outperformance continue in the coming years? Much depends on the capital maintaining its position as a global centre for business and finance and on this front there are several trends that cause some concern. Firstly, there has been some migration of jobs in finance to other European centres since Brexit while the London stock market has fallen behind key rivals such as New York. Tellingly, London's GDP growth in the 2016-2022 period was close to the bottom of the regional league table.

Another issue is deglobalisation: London certainly benefited from globalisation by attracting capital from emerging capitalist economies such as Russia and China. Geopolitical concerns have disrupted this process, particularly since the Russian invasion of Ukraine. And the abolition of non-domicile tax rules by the new government may disproportionately impact London, as it has attracted not just capital from abroad but also many successful foreign business people, some of whom may relocate to avoid becoming full UK tax payers.

On the other hand, London's population continues to rise while the housing stock struggles to keep pace. London is a global leader in a range of key sectors including healthcare, education and technology. So while the very favourable conditions from the mid-1990s to 2016 may no longer be present, there is no reason to expect London prices to fall back in the coming years.

4. What the Trump presidency could mean for the UK housing and mortgage markets

Since 2020, the UK economy and housing market has been buffeted by global events such as the Covid pandemic and the Russian invasion of Ukraine. But while these events were all but impossible to predict there is now an up-coming change that has potentially far-reaching effects that we know will happen in January 2025, as Donald Trump takes up residency in the White House with a potentially radical agenda.

What might the Trump presidency mean for the UK economy and in particular for our housing and mortgage markets? To answer this question, we need to consider the possible impact of specific policy proposals.

Tariffs

During the election campaign, Trump repeatedly argued in favour of tariffs on imports across the board, often mentioning a figure of 20%, with higher levels for Chinese goods. In his previous presidency, Donald Trump imposed sweeping tariffs on goods from China and also on specific products from Europe such as steel and aluminium. The Biden administration kept the tariffs on China, as these proved popular with the electorate.

If the new Trump administration were to impose tariffs on UK exports to the US, its impact in the UK would depend heavily on how the UK government responded. If we chose not to respond with retaliatory tariffs, the UK would likely suffer some decline in exports to the US, which would depress output slightly. The Centre for Economic and Business Research (CEBR) estimates that under this scenario UK GDP would suffer a 0.9% decline. But this would have a limited impact on inflation and interest rates in the UK.

However, if we responded with tariffs on US exports, the £60 billion of US goods coming into the UK would likely rise in price, putting upward pressure on UK inflation. This could lead to higher interest rates which would adversely impact the housing and mortgage markets but the impact on inflation is likely to be modest so any rise in interest rates would likely be, at most, small.

But even if the UK escaped direct tariffs, if Trump makes good on his promise to place tariffs on goods from other countries, this would likely provoke widespread retaliation, leading to higher inflation and a fall in world trade, depressing global growth. Even though UK exports to the US could benefit if the UK was exempted from tariffs that other countries faced, this is unlikely to outweigh the negative impact on our output from slower world growth. Such an economic downturn would also be expected to adversely affect the housing market through higher unemployment and lower wage growth.

Of course, there is great uncertainty about whether the threat of tariffs is a bargaining position. A full-scale trade war is unlikely to be positive for the US given that it exports some $3 trillion worth of goods. But it does seem likely that Trump's true position will become clear fairly early in his term.

Higher Federal government deficits and increased presidential oversight of interest rate decisions.

Given the broad outline of Trump's economic plans and in particular his promise to extend the tax cuts contained in the Tax Cuts and Jobs Act, which are due to expire in 2025, many commentators have concluded that the Trump presidency could lead to higher Federal budget deficits. Government debt rose by an unprecedented $8 trillion during the first Trump administration, equal to nearly 30% of GDP, although this was boosted by Covid-related costs.

US government debt is now over 120% of GDP and 10-year government bond yields have risen since September to stand at 4.2%, perhaps in part reflecting fears that the deficit will rise. There is a risk that the financial markets will push up borrowing costs further if they feel the US government debt stock is on an unsustainable path and a rise in longer-term US interest rates would be expected to push up interest rates in other countries as governments compete for global capital.

Another issue which has worried investors is Trump's statements suggesting that he believes that Presidents should have input into Federal Reserve interest rate decisions. Central banks like the US Federal Reserve have credibility with global investors because they are seen to be free from direct political interference and tasked primarily with keeping inflation under control. Presidents might be tempted to lower interest rates to boost growth, endangering inflation in the longer term, which would also be expected to push up longer-term interest rates. Higher global government bond yields would raise fixed-rate mortgage pricing which would adversely impact the UK housing market but there is of course great uncertainty as to the scale of possible effects.

Ending the war in Ukraine

Donald Trump has repeatedly claimed he will end the war in Ukraine on his first day in office if not sooner. The US has played a pivotal role in supporting Ukraine, supplying some $61 billion of military aid, and most commentators agree that without US financial and logistical support, Ukraine's position would be severely weakened. Therefore, Donald Trump has significant leverage over Ukraine to push it to negotiate an end to the fighting. Russia also potentially has an incentive to enter into a ceasefire that might allow it to hold territory seized from Ukraine. Russia would also benefit if the end of fighting was accompanied by a partial or complete lifting of western sanctions.

An end to the fighting in Ukraine, especially if it brought about an easing of sanctions on Russia, would likely reduce global energy and food prices as Russian oil and gas could flow more easily to the west, and Ukrainian food production could rise, although prices of both energy and food have already fallen back. This in turn could lower the rate of inflation across western nations which might increase the scope for interest rate cuts but these effects are not thought to be very large and would be easily outweighed by the impact of a global trade war. In summary then, it is the threat of a trade war that carries the greatest risk for the UK economy and housing market, even if the UK is not directly hit with tariffs.

5. Conclusion

For the housing and mortgage markets, 2024 was a welcome year of returning stability after the impact of sharply higher interest rates from late 2022. Mortgage rates fell back slightly and the outstanding stock of loans repriced to a level not far below current rates without causing the market to falter. In other words, the market has taken the end of ultra-low interest rates in its stride and remains remarkably resilient.

The consensus of economic forecasters is for interest rates to remain at levels well above that which prevailed for most of the past decade, with a widely shared view that Bank of England Bank Rate might settle somewhere between 3% and 4%. This could leave the market looking quite similar to the years preceding the global financial crisis of 2008-9.

When Bank Rate was last at 4.75%, in the fourth quarter of 2006, CPI inflation was 2.7%, unemployment was 5.5%, the house price earnings ratio was 8.5 and new borrowers were spending 16% of their income on mortgage interest. By comparison, the latest data has CPI inflation at 2.6%, unemployment at 4.3%, the house price to earnings ratio at 8.2 and new borrowers spending 15.5% of their income on mortgage interest. Thus, the current economic environment looks favourable compared to this earlier period which bodes well for the housing and mortgage market going forward.

What does not look so favourable today is the trend growth of productivity and output. This is creating pressures on the public finances that has led to higher taxes and borrowing as economic growth is not delivering the increased tax revenues needed to meet the demands of public services and benefit payments. The new government’s answer is to promote growth, particularly through infrastructure and housebuilding.

While much of the focus on how to stimulate housebuilding has been on reforming the planning system, mortgage market reforms should also be considered, as higher new housing supply must be met with increased demand. Thus the new government should give serious consideration to pushing through reforms that will reduce the regulatory constraints in the mortgage market. For example, we have consistently argued that the loan-to-income (LTI) flow limit, where no more than 15% of each lender’s mortgage advances can be at an LTI of 4.5 or more, is not consistent with the wider FCA affordability regime, as it constrains lending that the FCA regime deems affordable and disproportionately impacts first-time buyers. We shall continue to discuss this and other points raised in this report with the government.

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About IMLA

The Intermediary Mortgage Lenders Association (IMLA) is the trade association that represents mortgage lenders who lend to UK consumers and businesses wholly or predominantly via the broker channel. Its membership of 53 banks, building societies and specialist lenders include 18 of the 20 largest UK mortgage lenders (measured by gross lending) and account for approximately 93% of gross mortgage lending.

IMLA provides a unique, democratic forum where intermediary lenders can work together with industry, regulators and government on initiatives to support a stable and inclusive mortgage market.

Originally founded in 1988, IMLA has close working relationships with key stakeholders including the Association of Mortgage Intermediaries (AMI), Building Societies Association, UK Finance and the Financial Conduct Authority (FCA).

Visit www.imla.org.uk to view the full list of IMLA members and associate members and learn more about IMLA's work.

About the author

Rob Thomas is a Director of Research at Instinctif Partners. He previously served as an economist at the Bank of England (1989-1994), a high-profile analyst at the investment bank UBS (1994-2001) and as senior policy adviser to the Council of Mortgage Lenders (2005-12). He was also the project originator and manager at the European Mortgage Finance Agency project (2001-05) and created the blueprint for the government's NewBuy mortgage scheme and Deposit Unlock.