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Booms & Busts Report

The economic statistics, Globally, the US and in the UK are clear. We are in or heading to severe economic recession. See July and May Booms & Busts Reports, for such data. They're decidedly worse since then.

Is your investment/pension portfolio prepared?

Shares and Corporate Bonds are teetering on the edge of the cliff, hanging by their fingertips. That's probably 80% of your overall portfolio...

This is the September 2023 Booms & Busts Report. I publish these, free, every two months.

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In this edition of The Booms & Busts Report:

- **House prices and the market**

(Have you ever seen a house price crash outside of an economic recession? The answer is, of course, no.)

I decided to devote this entire September Report to this subject.

NB. The effects of Base Rate moves are felt as much as 12 to 18 *MONTHS* after such a move - both for rate hikes and cuts.

UK Housing market

(Remember Max Bygraves) Let me tell you a little story.

It was March 1994 I bought my first detached home. I had had my best ever earning year, to that point in my career, in 1993. I was able to fund a deposit AND the negative equity on my flat.

The house price crash started in late 1989 and continued through 1993 (bottom in prices for London) into 1995 (bottom for the North).

The bean counters told us that in the 'crash' - the worst for 20 years - house prices fell an enormous ... 15%. With double digit inflation, wages and salaries still grew strongly, for those in work. The worst house price crash in 20 years and, on average, house prices fell just 15%. Yet, many went bankrupt with that. The economy was in Stagflation - stagnation and inflation. The worst situation. That's how fragile the housing market / economy can be.

Now, taking into account inflation, prices fell 35%, in Real Terms.

The house I bought was only 10% below its peak price. Initially, it remained flat in price, then eventually moved up in price to 1998. Up 20-25%. Then it soared 66% in the next three years.

Base rates had gone to well into double figures in the late 80s / early 90s. Then, when we left the Exchange Rate Mechanism, and when they further slashed interest rates, it stopped the house price rot. Eventually.

A month after I moved in, so April 1994, I heard of a larger, more prestigious, detached house around the corner. It was "the one in 50" that had HALVED in price. (The self-employed husband had died, without life assurance... In a market when 'nothing' was selling, as 'no one' was lending, the widow was left with a large mortgage she couldn't afford and she had to accept an extremely low cash offer.) That house value, from the forced sale, quintupled between 1994 and 2007. For all I know - which I do not - it could have gone up a further 50 - 100%, to the peak a year ago. From 2004 to 2022, it would not surprise me if it rose 900%.

If only they'd had appropriate life assurance.

The buyer did, er, quite well...

So, I recount these as it seems to me we are in a similar period.

My Base Case remains at: we can expect **an average** house price fall of 10-20%, from the Autumn 2022 peak, to the trough. Though there is a strong case now for why house prices could fall, **on average**, 20-30%. Then add on inflation. So, potential Real Terms falls of 40 to 50%... Watch this space.*

However, these are AVERAGES!

National Averages.

Some regions will do better than others. Some less well.

Some areas, within regions, will do better and some worse.

Some streets, within areas, will do better and some worse.

Some houses, within streets, will do better and some worse.

* You will have read - as it was plastered EVERYWHERE - earnings growth has been strong. First level thinking tells one that that should help house prices. Analysis though shows that unemployment is finally ticking up. As it will, unfortunately, soar in the recession, even if earnings growth will remain strong, it will be for fewer folk... First, I expect earnings growth to abate. Second, I expect unemployment to soar.

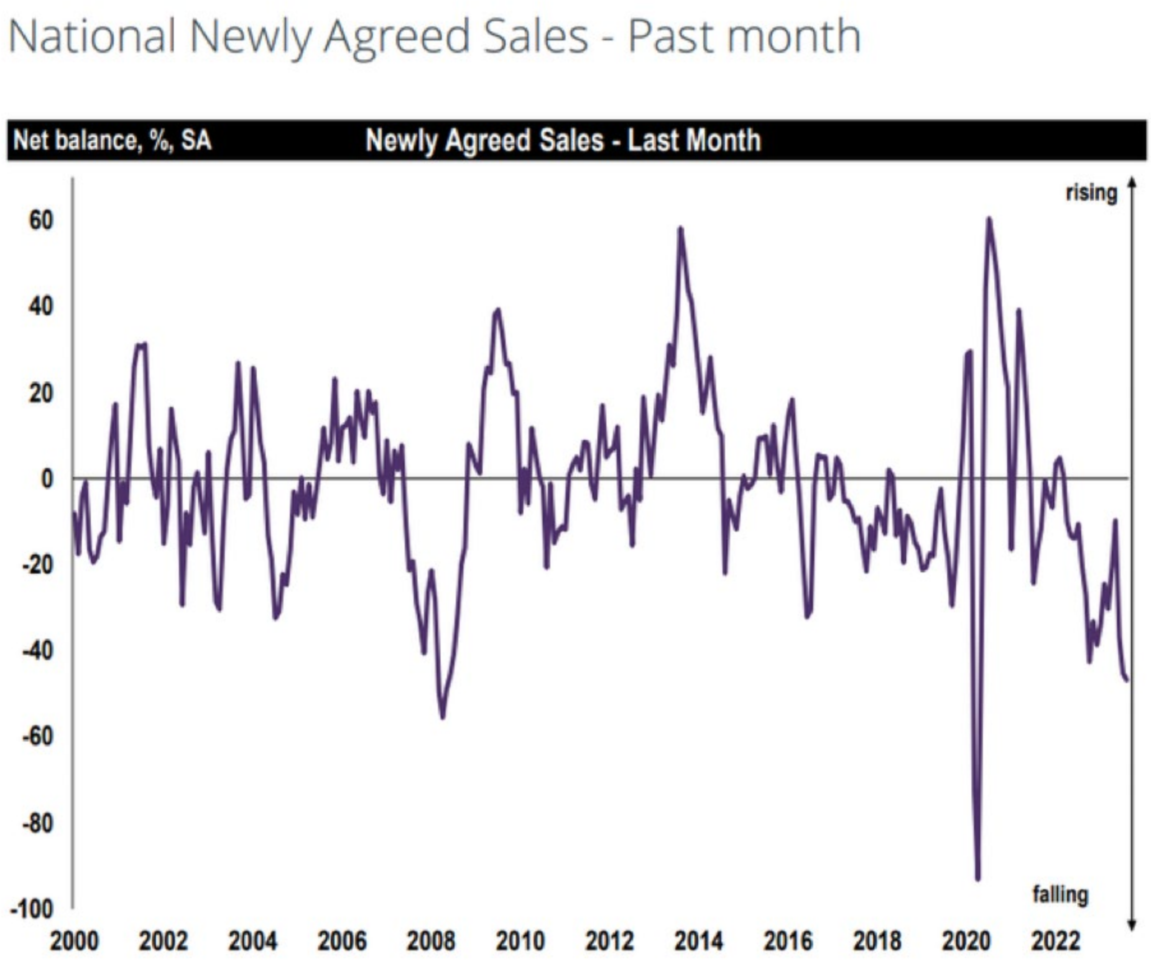
Expect no support to house prices from wages and salaries.

What the *Asking Price* is is IRRELEVANT. Consider the market and the area and the street and the property, either as buyer or seller, and price accordingly. The price is the one on which the offer is accepted.

Mortgage lending is down around a third over the last year. Already a huge fall. (Within a couple of months or so, I expect we will see year on year lending down 40-50%.)

Estate agents are extremely busy twiddling their thumbs. Both thumbs, mind. Enquiries are down a half.

Royal Institute of Chartered Surveyors (RICS) **monthly market report**. August, published 14 September 2023.

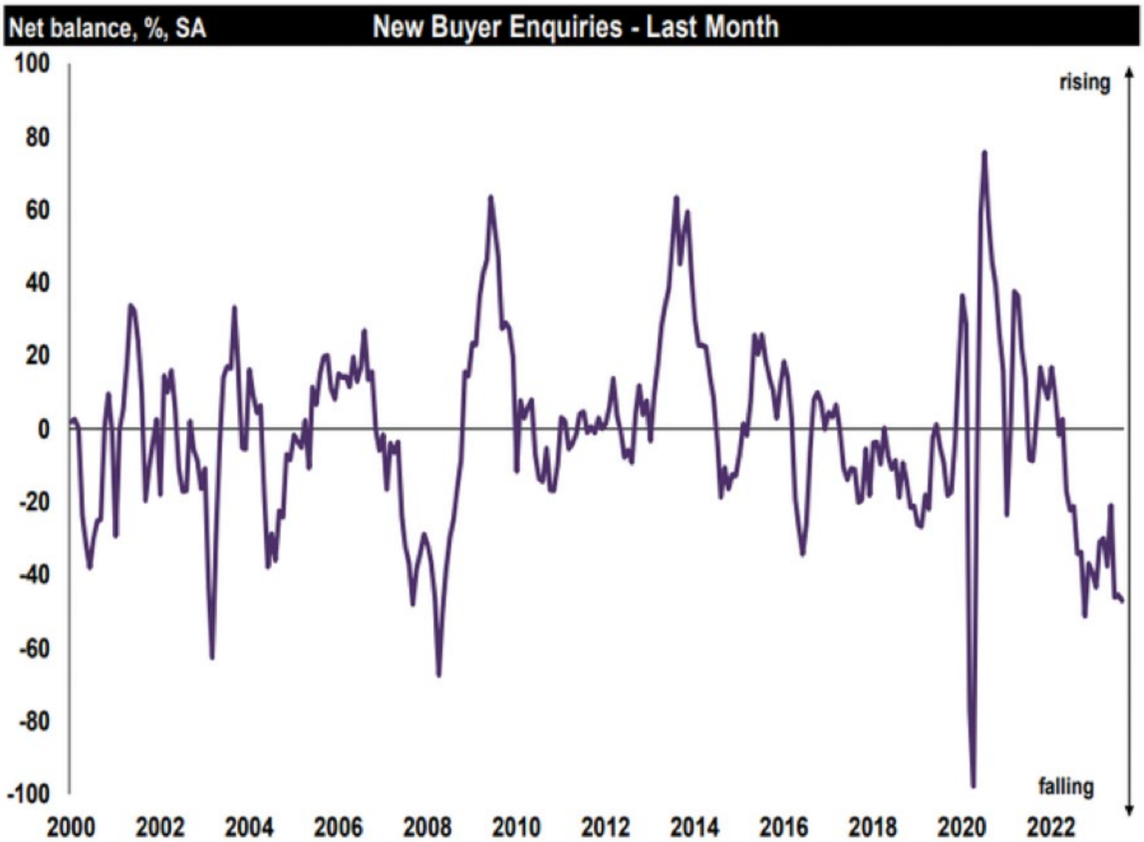


Homes sales' volumes have collapsed to the levels of the 2008 'Great Financial Crash', when we had the biggest banking bust in history... till 2023...

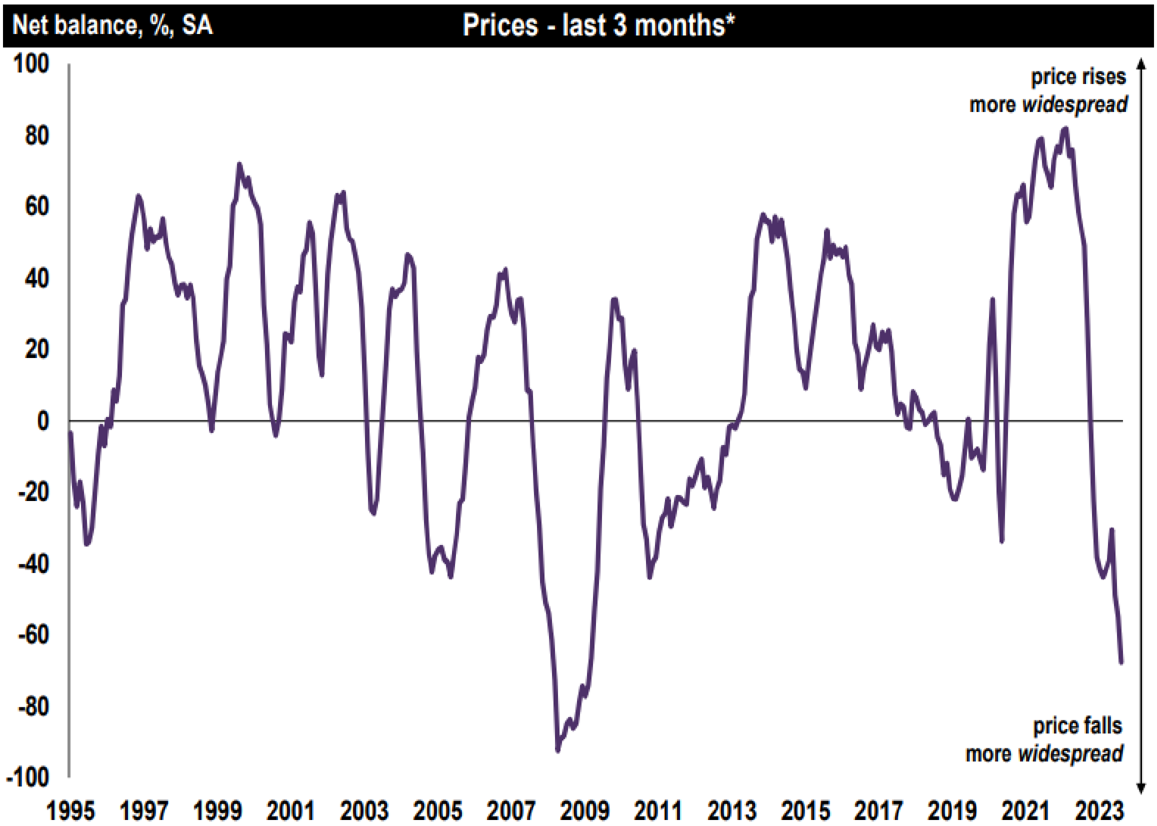
And these are estate agents' numbers. Do you imagine, in reality, the numbers might be even worse than they are reporting? And they are far more up to date / current than the indices you see from, for example, Nationwide, Halifax and the ONS.

Buyer enquiries have crashed, to house price crash levels.

National Enquiries - Past month



National Prices - Past three months



*the net balance measures breadth (how widespread price falls or rises are on balance) rather than depth (the magnitude of price falls or rises).

RICS don't report an index of house prices. RICS shows the proportion of Chartered Surveyor agents reporting rising or falling prices, over the prior quarter.

The proportion reporting price falls is around 2008 levels. (I wonder what it would have been in 1993, had the survey been around then. -100% probably? It will not surprise if it gets there, as it practically did in 2008.

It is well known, in estate agent circles, that agreed prices are around 15% LOWER than original asking prices (APs), **for those properties that do sell**. Remember, the Rightmove AP may have been reduced*, and more than once.

* (There is a Chrome Plug In that shows AP changes, for both properties up for sale and to let. It's called Property Log.)

Buyers are just not paying near original asking prices - as they can't afford to!
... unless the original APs already take into account realistic falls in prices. Buyers haven't the funds to pay the unrealistic APs. Mortgages are harder to obtain and monthly costs of high mortgages simply make them impossible. So, they borrow less than previously.
And sellers are too focussed on last Autumn less 5% prices. Well good luck with that. They are going to be hard to sell. And the (would-be) sellers will grimace as they reduce their

APs repeatedly... Better to bite the bullet and price according to the market, not what they dream their property is worth (and perhaps used to be worth). You might even obtain competing offers.

Forget the out-of-date 12 month indices you read every week. They are 6 to 9 MONTHS out of date of prevailing prices. The -5% or so on Nationwide and Halifax, reported this month, is not the current price level.

When you see, for example, the Nationwide House Price Index, it is based upon agreed prices of **six months before**. The ONS / Land Registry is nine months out of date.

Sales volumes are down a third since a year ago.

Buy To Letters are getting out by the hundreds.
The smaller BTLers, with mortgages, are just leaving (trying to leave) the market.
The bulk of 10+ property BTLers are selling (trying to sell).

In the last year, to earlier this year, the average BTL portfolio fell from over nine properties per landlord to over eight. That was some six months ago. I suspect it's over seven now, and still falling.
7% BTL mortgages Vs 3% previously, not counting that private BTLers cannot count mortgage costs against income for income tax. Yes, really.

Yes, rents have risen, and remain strong. As the supply of rental properties falls, demand remains. But, again, many landlords now have 7% mortgages, if they have mortgages. Something has to give. They can't double rents.

There will come a point, if not already reached, when landlords instruct (scream at) their agents to "sell at any price. Just get me out!". It's what happens in stock market crashes. Fear and Greed move markets. As markets soar - get me in at any price. As markets crash - get me out at any price.

The residential housing market is in a state of collapse. Catching down with the commercial property market, as I said it would.

It's hardly surprising, with mortgage rates doubled or trebled over the last year or so, AND lending having got tighter and tighter.

So, higher borrowing costs and tighter lending. Put those into any market - residential or commercial property, shares, commodities et al - and you will have a crash in prices.

It seems to me there will be a 1 in 10 chance of 25% off the Autumn 2022 peak price, if you do a LOT of research and put in written bids. And walk away if the offer is rejected. You can always go back a month later, with ever worsening headlines, increasingly despairing sellers*, and ask if the offer would be accepted now... More tips on buying, below.

And there will be a 1 in 20 chance of 35% off.

And there will be a 1 in 50 chance of a 50% reduction from the Autumn 22 peak.

Indeed, the odds may be shorter, depending on how long the crash continues.
Into next year is now a given.
Into 2025 has a high probability.

* Hands up if, like me, you HATE the estate agent term Vendor. Ugh!

I have said for around 2 years now that, in a higher inflation world, in a higher interest rate world, house prices would grow sub inflation for the next generation. (Of course, they rose way above inflation for decades up to 2021.) Clearly, I started saying this even while prices were still rising. You have to look through the short term noise.

Taking into account the current falls and the inevitable future rises, that long term prediction seems increasingly likely to be accurate.

By 2024, with lower inflation and economic recession, we are likely to see lower Base and mortgage rates. Also, little doubt the politicians will spend, spend, spend (like bankrupt, eventually, pools winners. Does anyone under the age of 40 know what the pools were?).

However, there will have been major economic casualties between now and then. So, the recession may spill over to 2025.

At this point it is unclear when we will see the end of the recession and house price falls.

I will remind you that there will be over 2.5 million **fixed rate mortgages that will be reset** - to much higher rates - by the end of 2025. This year, so far, over 500,000 fixed rate mortgages came to an end. An average of 50-75% increase in monthly mortgage costs for, fully, 15% of UK households. And, indeed, a higher percentage of owner-occupied and private tenant, where the landlord has a mortgage.

And 1.6m mortgages to reset by the end of next year.

So,
Earnings growth will abate,
Unemployment to soar,
House prices to fall, materially,
I expect investment/pension portfolio values to plummet,
AND,
For millions of mortgage holders, costs will soar.

A big headwind on the economy for the medium term.

On the supportive side, interest / mortgage rates will fall, from next year.

Do you think there might be a further jump in supply of homes for sale to come, as many folk can't take the higher costs? Where will the demand come from? BTLers? Nope.
The future demand will be the very large, institutional buyers who intend to own much of UK (The West's) residential property, while the West's population turns ever more towards renting / being supported... (aka Communism / Feudalism).

Of course, those employed and those owning profitable businesses and practices, with higher inflated earnings, will also buy and trade up.

The Busts will end. 2024? 2025?
Until the next time they start. And it seems to me, in higher inflation, the end of the 'Boom' period will be sooner than later.
In the disinflation, from the 1980s to 2020, Booms lasted several years.

Currently, I am thinking the next (mini) Boom will be around only three years, as inflation will surely return, with the lower rates and huge government spending/stimulus. The mid 2020 to 2022 boom(let) was just over 2.5 years, with, globally, 10s of Trillions of government 'stimulus'. It is that that created the inflation. And will do so again.
Inflation is an economy killer, as we have seen since early 2022. (Deflation is great for an economy and for the population. Unfortunately, politicians and the 0.1% love inflation.)

Remember too, even as house prices start to rise again, that will likely be in an environment of materially higher rates than we had for some 15 years, to 2022. You could still get 1.5% mortgages last year. They did get as low as 1%.
Now, 5 to 6%.
After the fall in rates, starting 2024, you should expect them to bottom around 2.5%. Maybe lower, maybe higher. But materially higher than the lows seen in recent years. Then, with rising inflation, they will then rise from ~2.5%.

The long term effect of permanently higher mortgage rates will be sub inflation house price rises... at best. (Unless you buy or trade up particularly keenly priced. Then you could do very well.)

House buying / negotiating tips

Before you intend to view and before you make your offer:

Have your chosen surveyor in place ready to survey.

Have your lawyer / conveyancer in place. Do not cut corners on this. Pay more for quicker service. The nationals, who price to the bone, are all too often awful. A main reason why purchases are taking so long to complete.

Get your search pack in place.

Get your Mortgage Offer In Principal (MIP) in place.

Offer
Always, always, always email your offer, professionally, to the agent. It is immaterial if you include reasons for your specific offer, except obvious costs that need to be incurred like repairs. Include information such as you are a first time buyer, Cash buyer or low Loan-To-Value mortgage percentage buyer. These are attractive to agents. Include the MIP and confirm who are your surveyors, lawyers/conveyancer and tell them you can start the search within 24 hours of offer acceptance. Inform them, ideally, that you have a buyer for yours, if needing to sell, in order to buy. With transactions down so much, agents are desperate. They are desperate to receive offers. Their job is to sell properties and make fees. No sale, no fee.

The offer amount will be the one at which you will be delighted if accepted. It can be as close to or as far from the asking price as YOU FEEL COMFORTABLE that you can afford. You must not regret having an offer **accepted**.

Agents could care less if your offer is way below the asking price. They will welcome ANY offer. There is no embarrassment. All you seek is a Yes or a No. Without any offers the agents have zero probability of selling the property and earning ANY fee.

BE PREPARED TO WALK AWAY IF THE OFFER IS REJECTED. Thank them, politely, for their time and consideration. Comment you may come back in a month to see if the offer can be reconsidered. (It is not unknown, shall we say, that agents make up fictional competing offers to try to have you raise yours. Their stupidity, in a dead market.)

There's plenty more fish... And, as I said, you can always go back a month later, with ever worsening headlines, increasingly despairing sellers (and agents...!), and ask if the offer would be accepted now...

For months it has been a buyer's market. That will continue well into next year, as I see it. And may be into 2025. Just watch how quickly mortgage / Base rates fall when they start to, to guide as to when it will be best (financially) to make offers.

[Buying a home is not only about finances.]

Indeed, you can view and make offers NOW. No need to hold off viewing and offering. Follow the steps above. Go back monthly...while viewing / offering elsewhere.

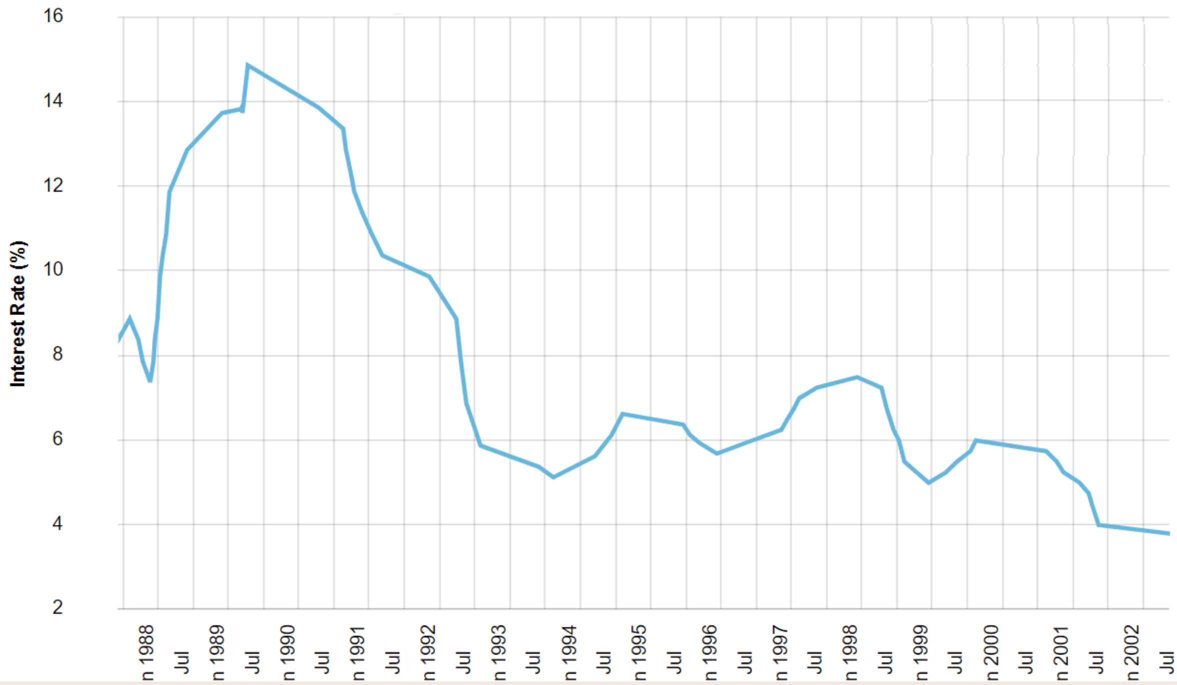
We should expect no Base Rate cuts this year. December would not surprise, however I expect no cuts till 2024.

Oh, and if you are not UK but elsewhere in the West, what makes you imagine your house prices and market are any better than ours? They're not. Rates have risen everywhere and lending is increasingly restricted, everywhere.

Remember too: the effects of Base Rate moves are felt only 12 to 18 MONTHS after a move. **We will still be feeling the effects of THIS Summer's Base Rate rises into the second half of NEXT YEAR.**

Any cuts won't have any effect till a year at least AFTER they occur!

UK Base (and Mortgage) **rates** crashed, from 1990 (we finally left the ERM in 1992 and rates then went down, vertically). Yet, house prices continued falling into 1993, 94 and 95, from London outwards.



What do you do if you wish to remain where you are but your mortgage rate doubles, trebles or, goodness me, even quadruples, to the Standard Variable?

Firstly, don't panic.

You will (likely) have to tighten your belt a little or a lot. Suck it up.
You borrowed. You spent (when rates were tiny). You made your bed.

By 2024 or 2025 rates, including fixed mortgage rates, ought to be lower than today.
Remortgage / refix then.

There are no guarantees here. Just how I see it playing.

In the meanwhile, where you can, pay off a chunk of the debt. If your rate has jumped to, say, 5%, paying off even £1,000 of mortgage will reduce your annual costs by £50. £10,000 reduces your annual costs by £500. And quickens the overall mortgage repayment term... and the overall mortgage cost! That's a guaranteed 'investment return' on your money of 5%. Of Net / After Tax Income. Had you been taxed on the 'income', you would be receiving a return of higher than 5%, for a Basic Rate taxpayer, and even higher, for a Higher Rate taxpayer.

The sooner you pay off debt the better for you.

Borrowers simply choose to forget that the bulk of the repayment is interest. The longer the term, the more the lender makes off you. They thank you for your long term custom.

Every few years - for those in work - with high interest rates, you ought to be paying off a chunk, and so ending the debt FAR more quickly than originally envisaged.

Don't hold onto mortgage debt longer than you need to. (At extremely low mortgage rates, it has been largely fine not paying off. This no longer is the case.)

25 years is bad enough. But parents have been encouraging young adults to take out 30, 35, even 40 year mortgages. So, the parents paid off debts by 55 but their kids will still have debts at 70. Great.

Pay mortgage debt off as quickly as you can.

That, of course, assumes you have no hugely expensive credit card debts or car loans. And, do you really need to lease a new car every three years, at £500/m? Really?

I just replaced my 11 year old car, which had 135,000 miles on the clock, with one with 25,000 miles. And the majority of the depreciation, of the 'new' car, was in the price, that ever will be.

Remember too, just like the 70s to 90s, inflation ... inflates away debt. As hard as paying huge monthly mortgages are, inflation, itself - i.e. earnings growth - should make long term debt much smaller, in Real Terms, compared to your income, after just a few or several years.

Higher inflation, will not mean house prices will rise with the inflation, as they did previously, for decades. But it will mean you will have lower debt relative to your income within a few or several years, assuming you earn well and your earnings rise well.

Are you still betting on rising stocks in your pension? Your retirement fund? Your financial assets and arrangements?

If there is a crash in stocks and corporate bonds, will you be able to get out?

What normally does well, portfolio-wise, in economic recessions, and while stocks, commodities and corporate bonds crash?

Check your portfolios are appropriate for what can be expected to take place.

I advise clients on Wealth Advice and Later Life Financial Advice all over GB and, indeed, on three continents.
“We advise you based on what we would do, were we in your shoes, given what we know."
Call me personally to see how we can help you.

I think most folk do not realise the sizeable risks - and opportunities - in investment markets.
They will. But will they have benefitted or lost from the decisions made?

Thank you for reading. I hope you found it interesting and, perhaps, useful.
If you have any queries over any of the issues raised, just call me or email by clicking ***here*.**

With kind regards

Jonathan Davis **BA MBA FCII FPFS EFP**

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