



WHAT NEXT FOR THE MORTGAGE MARKET:

the challenges we faced in 2022, and how this will shape 2023

As we approach the end of 2022, we've been reflecting on the successes of the year, but also the challenges that the market has faced – from rising interest rates to sky-high rental costs.

With speculative stories about falling house prices and stabilising interest rates dominating the media, it's easy to feel confused about what the new year will bring for brokers and lenders. So, how we can use what we've learned to predict the trends that are likely to shape 2023?

This was what we aimed to achieve in our latest market-focused webinar, where I was joined by Richard Donnell, the Executive Director of Zoopla, Nicola Firth, the Founder and CEO of Knowledge Bank, and Robert Sinclair, the Chief Executive of the Association of Mortgage Intermediaries (AMI).



Market update

To kick things off, Richard took us through the key house prices and sales volumes trends that we should expect to see in 2023.

Demand over the course of this year started strong, weakened over the summer, and is now plateauing, as many people wait to see what happens to interest rates and house prices in January next year. Although average mortgage rates rose to 6.5% following the mini budget, Richard believes the situation will continue to improve. The overvaluation of properties that we have seen in the past year might unwind, and Richard predicts this will result in mortgage rates dropping to 4% and house prices falling up to 5%. High mortgage rates are likely to dent buying power, leading to people purchasing properties in cheaper areas, putting in more equity upfront, or allocating more income to their mortgage repayments.

This picture, however, will vary across the country. Scotland, which has a relatively stable housing market, will see much steadier rates of growth, and in the North of England, prices will slow, but are unlikely to fall. Conversely, higher mortgage rates will hit the South of England hardest, because this is where affordability is most constrained; high incomes and large deposits are needed to buy most properties. In London, for example, low affordability is acting as a drag on house price growth and market activity. As a result of these challenges, Richard estimates that overall sales volumes will drop to one million next year.

To close out his update, Richard shared his top three predictions for 2023:

1. Continued drivers to move home – such as the continued prevalence of remote working, people reaching retirement, and the cost-of-living crisis;
2. Homeowners will be more likely to give up pandemic price gains;
3. Rental market rationalisation to continue, with new investment focused on cashflow, rather than price growth.



How will this prepare us for the challenges of 2023?

In our panel discussion, which was hosted by my colleague, Adam Sheldon, we shared our predictions for 2023, discussed how brokers and lenders can get ready for Consumer Duty, and explored how, despite the challenges, the industry can continue to innovate.

Robert predicted that the 2023 market will remain roughly in the same shape. The challenge for brokers will be remaining informed for customers as they try to navigate the market, particularly as the cost-of-living crisis means they'll need to think about criteria in a much deeper way.

Nicola took an optimistic view, saying that the positive attitude of brokers and lenders will see us through the turbulence. She pointed out that whereas the 2008 crisis was self-made, this one is caused by external factors impacting our market – and, critically, everyone is on the same side this time. With this in mind, she predicted a short and shallow recession.

Consumer Duty will lead to major shifts in how the financial services industry treats vulnerable customers. Robert admitted that the market is not yet prepared, but that significant progress is being made to ensure we meet the key deadlines. Lenders, he said, need to define exactly who their products are designed for and be able to clearly articulate their service proposition. Robert noted that AMI is supporting production of templates to allow lenders to transparently communicate what their products can offer to customers.

Despite the headwinds, however, we agreed that there are exciting opportunities for innovation. Nicola believes that the huge amounts of data available – from market insights to online customer activity – should be mined to develop innovative new methods. Rob, meanwhile, said he would like to see products such as low-start mortgages – where customers can pay less to start with – making a comeback to help people get onto the property ladder.



Kensington business update

I was proud to report that our service continues to be market leading, delivering exceptional value for brokers and their customers. We have been offering day one reviews on new applications and new documents for almost 12 months, backed by our robust processes and our brilliant underwriting team. Over 4,000 calls were made from underwriters to brokers over last month, helping them stay abreast of cases and lead them to completion.

Our key successes include:

- **Providing support at pace** – We offered 25 cases in less than 48 hours in November;
- **Finding new ways to help** – We launched our new product transfer portal, making us one of the only securitised lenders to support the product transfer process;
- **Supporting vulnerable customers** – We have been working with the Samaritans, who have been training our customer services team so that they can support customers, whatever challenges they are facing. We encourage brokers to have open conversations with their customers and to fill out the optional section of our application form for special requirements, such as braille, when it goes live in 2023.

My takeaways

This was a fascinating session, packed with helpful insights. My key takeaway was that 2023 will be the year of the specialist customer. Rising rates of unemployment and the cost-of-living crisis mean that more people will find themselves in atypical financial situations. They might, for example, have become self-employed for the first time in their lives. Brokers and lenders need to communicate with their customers and educate them on the options that are available to them, giving them the confidence to invest.

Finally, the volatility and intense pressure that we have experienced has been felt by brokers and lenders alike - so I hope you all take time this festive season to pause, reflect and rest. Not only will this be beneficial for our wellbeing, but it will also ensure we are ready to tackle the challenges that emerge in 2023.



Eloise Hall – Interim Head of National Accounts

Eloise joined Kensington Mortgages as National Account Manager in 2019, bringing a wealth of experience from both Leeds Building Society and Principality Building Society, and has worked with many accounts throughout the UK. Eloise has continued to grow Kensington's brand as an innovative and forward-thinking specialist lender and has won an array of awards since adopting the Interim Head of National Accounts role, including British Specialist Lender award for Lender: Business Development in 2021, Woman in Specialist Lending at Financial Reporter Women's Recognition Awards 2022 and Head of National Accounts at the 2022 British Specialist Lender awards.

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