



Bank of England Raises Interest Rates – What Impact could it have for Homeowners and Businesses

For the first time in more than 10 years the Bank of England has raised interest rates. The official bank rate has been lifted from 0.25% to 0.5%, the first increase since July 2007.

Harshinder Hundal, Partner and Head of Commercial Property at award winning and leading regional Law firm Pictons Solicitors comments “The low interest rates allowed businesses to fall into a false sense of security as lenders were happy to carry on servicing heavy debts. By the end of September this year we saw a 27% increase in the number of companies in trouble, the equivalent of 448,000 companies. It is inevitable that the increase will see thousands more businesses fail and rising insolvency rates will be a trend to continue”

The Telegraph reported that the total figure includes 250,000 so-called ‘zombie’ businesses with negative net worth, kept alive by low interest rates and a flexible labour market but ultimately unable to invest in growth.

Harshinder continues “Many companies’ in particular professional and financial services companies have struggled with increased costs because of the rising minimum wage, fuel costs and increased import costs due to the weak pound. The interest rate increase will see the cost to borrowing boosted and push those struggling firms into insolvency. The impact of the increased rate means the borrowing costs for those on tracker or standard variable-rate mortgages and those who depend upon credit will immediately be impacted and certainly before Christmas. The increase in the rate should help bolster the weakened pound but the impact could cut off economic growth when activity is already weakened due to the uncertainty of Brexit.”

“For property we can expect to see many home-owners opting for fixed rate mortgages on 5 year terms, certainty will be a prerequisite for many home-owners whilst investors may look ever more favourably to interest only mortgages.”

Despite stricter regulation, reductions to tax relief and a significant Stamp Duty tax hike when buying buy-to-let property, residential landlords have kept rent levels modest. Regions have seen little increases as many landlords have been able to absorb costs due to low mortgage interest rates. It is likely now, that landlords will opt for shorter tenancies and will welcome the opportunity to increase rents. The impact of increasing rents will have its own consequences.

If your business needs to make some Commercial changes and you need legal advice. Please contact Harshinder or one of the Commercial Team on [0800 302 9448](tel:08003029448) or email harshinder.hundal@pictons.co.uk