

YOUR WINDOW ON HOME FINANCE

SUMMER 2023

Mixed signals in housing and mortgage markets

Activity in the housing and mortgage markets is hotting up – and cooling down. According to the latest Residential Market Survey from the Royal Institution of Chartered Surveyors, a run of thirteen successive negative monthly readings for new instructions ended in May, marking the strongest reading for new listings since March 2021¹. Yet house prices are still predicted to fall in the second half of the year.

What next for house prices?

House price growth dipped in May and notably the annual rate of growth fell to -1.0%, marking the first time since 2012 that house prices have fallen year-on-year². It remains to be seen which way the market will veer in the second half of 2023.

If, as many are predicting, a flurry of mortgaged homeowners are forced to sell up when their current fixed-term deals end, the market could see a boost to supply that might reinforce the downward price movement. Analysts suggest too that first-time buyers (FTBs) could be delaying their homebuying plans in the hope that mortgage rates or house prices are about to fall sharply.

Bank Rate

Meanwhile, the Bank of England's (BoE's) Monetary Policy Committee (MPC) increased Bank Rate in May, taking it to 4.5%. Borrowing costs are now at their highest level since October 2008.

Those with tracker or variable rates have seen immediate higher repayments but the impact on fixed-rate deals has been less pronounced, with several lenders leaving rates unchanged.

Return of the 100% LTV mortgage

The mortgage market is kicking back into action too, with one especially noteworthy development, the launch of a new mortgage product that allows FTBs to take out a loan on the full value of their home. The 100% loan-to-value (LTV) mortgage is exclusively for current renters and depends on their being able to prove a track record of timely rent payments.

Don't second guess

Whatever happens in the months ahead, we're here to help you make the right decisions for your unique circumstances.

¹RICS, 2023, ²Halifax, 2023

Housing stock high

The number of houses for sale has soared new figures show³, further strengthening the position of buyers.

Supply surge?

Ever since the pandemic days of frenetic buying, demand outstripping supply has been a familiar picture in the UK housing market. As interest rates have risen sharply in the past year, moreover, some potential sellers have put their moving plans on ice.

It was surprising, therefore, when estate agents reported having an average of 34 homes for sale per branch in April. This is a significant rise from around a year ago when there were typically 20 properties on sale per branch.

Although challenges remain, this is a strong sign that activity seems to be recovering

Get moving

Figures for sales agreed are now almost back in line with pre-pandemic averages, estate agents noted. Although challenges remain, this is a strong sign that activity seems to be recovering.

With more choices available, if you've been thinking about moving, this could be a great time to find your dream property!

³Propertymark, 2023

As a mortgage is secured against your home or property, it could be repossessed if you do not keep up mortgage repayments

INSIDE THIS ISSUE:

Home insurance for home renovations // In the news // BTL landlords 'retiring' // Over 50s consider dropping life insurance // Joint mortgages for FTBs // Older homeowners staying put // Big changes for holiday lets?

Home insurance for home renovations

Home renovations are a popular way to give your property a new lease of life. When undertaking large-scale projects, there is a lot to think about – and the impact on your home insurance should be part of this planning.

In the loop

As well as producing detailed plans, seeking planning permission and choosing your contractors, a priority at an early stage should be getting in touch with your home insurer. This is because, if you don't tell your insurance provider about your building work and your plans for adding an extension, you could accidentally invalidate your policy.

When undertaking large-scale projects, there is a lot to think about – and the impact on your home insurance should be part of this planning



Risks and rewards

There are two main types of risk associated with renovation projects that your insurer will need to consider:

1. Structural risks

Knocking down walls could cause unexpected accidents or damage. Furthermore, structural work could expose your home to the elements for long periods of time, potentially at risk of causing damage to your property.

2. Security risks

During building work, your home may be less secure. You might temporarily move out and scaffolding can make intruder access easier. With a lot of tradespeople coming and going, there is a risk that windows and doors could be left open.

By contacting your insurer, you can check if your home will be covered and find out whether you'll need additional or specialist cover for it to be fully protected.

Rebuild costs

Remember too that having an extension added will likely increase how much it would cost to rebuild your home, which could mean you need a higher amount of home insurance cover.



Apartment sales drive recovery

Agreed residential sales have returned to pre-pandemic levels for the first time since September 2022⁴. The number of sales in March 2023 was only 1% behind March 2019, with the recovery largely driven by sales of apartments, which are now 10% above 2019 levels. In total, agreed sales remain 18% below the exceptionally busy market of this time last year.

Mortgage repayments rise

Buyers are paying up to 60% more on their monthly mortgage repayments compared to December 2021, according to new research⁵. The average two-year fixed rate on a 95% LTV mortgage, the analysis showed, has monthly repayments of £1,793, which is £615 per month higher than 15 months ago.

Homeowners underestimate 'rebuilding' costs

Roughly nine in 10 homes have underestimated the amount of cover they need to account for 'rebuilding' costs on their property insurance, estimates show⁶. This is largely because costs have shot up by 18% in a year, resulting in the average three-bed semi-detached home now costing £53,000 more to rebuild than it would have in February 2022.

⁴Rightmove, 2023, ⁵House Buyer Bureau, 2023, ⁶Building Cost Information Service, 2023

BTL landlords 'retiring'

Older buy-to-let (BTL) landlords are selling up in large numbers, new analysis suggests⁷, leaving a void when they 'retire' from the business.

Ageing population

The median age of individual landlords was 58 in 2021, according to the latest English Private Landlord Survey, significantly older than the general population. In contrast, only 15% were under the age of 45.

Around 140,000 landlords left BTL behind last year, the analysis shows, close to three quarters of all such property sales. The figure could keep rising over the coming years, with around 96,000 landlords across the UK due to turn 65 every year.

Selling up

The recent surge in selling comes partly from a shifting landscape, with a flurry of unfavourable changes making life harder and profits lower for landlords. In the coming months and years, the new Renters Reform Bill, updated Energy Performance Certificate (EPC) requirements, as well as changes to landlord licensing, Making Tax Digital



and Capital Gains Tax (CGT), look likely to have adverse effects on BTL landlords.

Higher mortgage rates are also dragging down profit margins, which is especially acute for newer investors, who are more likely to need to borrow to fund their purchases.

Here to help

This is undoubtedly a time of change for BTL landlords but good opportunities remain for patient investors. We're here to help you make sense of it all and ensure your portfolio is well prepared for years to come.

⁷Hamptons, 2023

Over 50s consider dropping life insurance

Continued high inflation is prompting over 50s to reconsider whether they really need their life insurance policies, research has suggested⁸, sparking fears of vulnerabilities.

Cutting costs

A survey of 1,000 people aged 50+ has shown that 22% of customers are thinking about cancelling their monthly payments as a result of the rising cost of living. Those with fixed incomes, such as retirees, are particularly susceptible to rising prices, the research claims.

Although cutting back on spending might be a necessary choice, cancelling life insurance policies can end up costing you and your loved ones further down the line. As well as leaving your family without key protection now, if you cancel your policy, it will likely cost you more in future should you choose to take out a new plan.

Gender imbalance

Women were more impacted than men, according to the research. Some 20% of women with an over-50s life insurance plan are considering no longer paying, compared with 17% of men.

Think carefully

Protection is an essential part of long-term financial planning for everybody. In the short term, rising costs are posing challenges for many. But having the right insurance cover for your unique needs is an indispensable safety net for you and your loved ones.

Before you cancel your life insurance payments, it is important to think of the wider impacts for your financial commitments. Get in touch.

⁸Scottish Friendly, 2023

Joint mortgages for FTBs

Traditionally, when thinking about joint mortgages, most people picture a married couple. Increasingly, however, friends or siblings are taking out joint mortgages when they buy their first home together.

Stronger together

A joint mortgage is the most popular way for first-time buyers (FTBs) to fund their home purchase, with more than six in ten opting for one⁹.

Buying with someone else means you can split the costs. Saving enough money to pay the deposit is one of the biggest hurdles for FTBs, with joint mortgages allowing buyers to share the burden. Likewise, monthly payments can be made together and your joint earnings will be used to determine how much you can borrow.

Joint or common?

A joint mortgage works the same way as a normal residential mortgage. Lenders

usually allow groups of up to four people to apply for a joint mortgage. The big decision is whether to be joint tenants or tenants in common:

1. Joint tenants essentially act like a single owner. You all have equal rights in the home, you split the profits equally when selling and, should one borrower die, the others will inherit their share.

2. Tenants in common have separate interests in the whole property. This means that you can choose how to split the ownership, with one person, perhaps, paying a bigger deposit in return for a bigger share of the value when sold.

Do you trust each other?

Before applying for a joint mortgage with a group of friends, make sure you know the commitment you are taking on. For example, if one person is unable to keep up with payments, the others must cover the full amount.

⁹Halifax, 2023

Older homeowners staying put

First home, family home... then what? Maybe nothing, new research suggests¹⁰, with older homeowners standing their ground and not considering downsizing.

Indeed, seven in 10 respondents said that they are not looking to downsize, in a survey of 1,000 homeowners. Moreover, although 29% do plan to downsize within the next five years, only 13% of over-75s have actually done so. So, what's stopping them?

Forever home

The main reasons cited for not wanting to downsize include not being suited to a smaller house (31%), already living

in their 'forever home' (25%) and having no desire to move away from their community (23%).

Moreover, the process of moving was also called into question on the grounds that it would be 'exhausting' (22%) and would not bring financial benefit once costs were taken into account (16%).

Downsizers

On the other hand, of those who do plan to downsize, 43% cited finding it easier to look after a smaller property, while 38% said that it would be cheaper and 27% noted a desire to have more money to retire with.

¹⁰Key, 2023

Big changes for holiday lets?

Turning homes into short-term holiday lets could soon require planning permission if new government plans come into force.

Conversion crackdown

The motivation behind plans is to save residents from being pushed out of their towns, the government says. Specifically, the government aims to target the practice of 'industrialising' online rental platforms, whereby entire apartment blocks are bought by investors to let as short-term rentals to tourists.

Regulation could introduce a new category for holiday lets and make them subject to local planning controls, which, the government hopes, will deter such activities.

"Affordable prices"

Housing Secretary Michael Gove commented, "Tourism brings many benefits to our economy but in too many communities we have seen local people pushed out of cherished towns, cities and villages by huge numbers of short-term lets.

"I'm determined that we ensure that more people have access to local homes at affordable prices, and that we prioritise families desperate to rent or buy a home of their own close to where they work."

Consultations will take place on the change, the government says, as well as on another proposal for a registration scheme for short-term holiday lets.



IF YOU WOULD LIKE ADVICE OR INFORMATION ON ANY OF THE AREAS HIGHLIGHTED IN THIS NEWSLETTER, PLEASE GET IN TOUCH.

As a mortgage is secured against your home or property, it could be repossessed if you do not keep up mortgage repayments.

It is important to take professional advice before making any decision relating to your personal finances. Information within this newsletter is based on our current understanding of taxation and can be subject to change in future. It does not provide individual tailored advice and is for guidance only. Some rules may vary in different parts of the UK; please ask for details. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from taxation are those currently applying or proposed and are subject to change. The information contained within this newsletter is for information only purposes and does not constitute financial advice. The Financial Conduct Authority does not regulate commercial buy-to-let mortgages.

All details correct at time of writing - June 2023.