ESSENTIALLY **MORTGAGES**

Q4 2017 ISSUE 6

FIRST-TIME BUYERS TAKE A BIGGER SHARE OF THE MORTGAGE MARKET

THE NEW DYNAMICS OF THE 'LAST-TIME' PROPERTY MARKET

BABY BOOMERS THREATENED BY PROPERTY PRICE CORRECTION

WHY THERE'S NO SUBSTITUTE FOR HUMAN CONTACT WHEN BUYING A HOME

SECOND HOME OWNERSHIP UP 30%

BANK OF ENGLAND TIGHTENS RULES AROUND MORTGAGES – GEN UP

RIDGEVIEW
FINANCIAL SERVICES LLP

IN THIS ISSUE

FIRST-TIME BUYERS TAKE A BIGGER SHARE OF THE MORTGAGE MARKET

There are signs that first-time buyers are finding it slightly easier to get into the housing market. Prices have slowed in many areas of the country. Research from estate agent chain, Haart[1], shows that in August the average purchase price for first-time buyers fell by 10.2%, meaning that buyers benefited from the summer market slowdown.

There are other factors that work in favour of the first-time buyer, including government schemes for new home purchase, and lenders offering mortgage deals specifically designed for those who only have a 5% deposit saved. Data released by estate agents, Hamptons International[2], shows that the increased availability of mortgage loans at higher loan-to-value ratios, combined with lower mortgage rates, means that first-time buyers are better placed to make their move into the property market. In addition, more lenders are also prepared to consider mortgage terms longer than 25 years, which helps to reduce the average monthly mortgage repayment.

If you're thinking about getting a mortgage, get in touch.

Your home or property may be repossessed if you do not keep up repayments on your mortgage.

[1]Haart, 2017

[2]Hamptons International, 2017

PRICES HAVE SLOWED IN MANY AREAS OF THE COUNTRY...

THE AVERAGE PURCHASE PRICE FOR FIRST-TIME BUYERS FELL BY 10.2%, MEANING THAT BUYERS BENEFITED FROM THE SUMMER MARKET SLOWDOWN.

PROPERTY MARKET UPDATE

Recent data on the housing market has been conflicting, with some headlines reporting chipper annual house price growth statistics, with others indicating price growth is grinding to a halt.

According to recent UK House Price statistics from the Land Registry[1], the average property price in the UK stood at £226,185. Average prices increased by 5.1% in the year to July 2017. England, where values increased 5.4% over the year, was the main contributor to the increase in UK house prices. Regionally, the East Midlands saw the highest annual increase in values at 7.5%, London continued to lag with 2.8%. In many cases, London sellers are having to reduce their asking prices to achieve a sale.

What is clear is that there is a certain level of economic apprehension, exemplified by waning consumer appetite for further borrowing and larger purchases as inflation takes hold. Annual growth in consumer credit has fallen to a 12 month low; this weaker consumer sentiment is not good news for house prices or the wider economy, and the added complication of Brexit looms. On the supply side RICS (Royal Institution of Chartered Surveyors) reported that new sales instructions have remained negative for the 17th month in a row. They also report that average estate agent stock levels remain close to all-time lows. This lack of supply is limiting choice for potential home buyers. The Managing Director of Halifax Community Bank commented: *"UK house prices continue to be supported by an ongoing shortage of properties for sale and solid growth in full-time employment."*

So economic sentiment is clouded, there is house price growth but there are clearly strong regional divides. The Halifax believes the squeeze on spending and rising prices could stifle future demand, but believe the housing market is unlikely to be badly affected by any future interest rate rises, as and when they occur.

[1]Land Registry, 2017

ONE IN FOUR PARENTS HAS MOVED TO BE NEAR A GOOD SCHOOL

All buyers will have a wish-list of what they want their new home to have, and being within a certain school catchment is increasingly common among young families with children, but it can come at quite a cost.

Ensuring a child gets a good education is frequently a major goal for families. With places at the best schools often heavily oversubscribed, parents are, research by Opinium[1] shows, willing to pay a premium of 12% to buy a property in their desired catchment area. However, one in four parents admit that they have put themselves under financial pressure by paying more for their property than they could realistically afford.

This situation is common in the state education sector where catchment areas still prevail, or the promise of a good, free education outweighs the financial, emotional and physical cost of moving home. The bulk of state schools in England and Wales admit pupils based on their proximity to the school.

To increase their chances of getting that all-important place, some parents say they have even changed jobs (20%), others have been prepared to downsize, or even move to an area away from family and friends that they admit they don't particularly like, or feel entirely safe living in.

Further moves ahead

Many are planning to make this a temporary move, with as few as 26% of people surveyed intending to stay put once their child leaves school. Others are considering moving once their child has secured their place. Buying a second home, or renting a property in the desired area are other commonly used methods of getting a toe-hold in the right area.

[1]Opinium, 2016

THE NEW DYNAMICS OF THE 'LAST-TIME' PROPERTY MARKET

A survey carried out by the HomeOwners Alliance[1] shows that around half-a-million people aged over 55 would like to move to a smaller property with lower running costs. Housing experts point to this as an effective way to help address the UK's housing crisis, as it increases the supply of much-needed family-sized homes available in the market.

Not that long ago, buying a bungalow was a popular retirement choice. However, single storey properties account for less than 1% of new-build homes, and the high level of demand created by an ageing population means that, in some areas of the country, bungalows change hands at prices equivalent to two-storey properties.

Increasingly, there are other options on offer. New developments of retirement flats and apartments are springing up in all parts of the country. On the plus side, these come with a lot of advantages for older people. They provide a ready-made community and often have amenities such as their own restaurant, and can offer domestic help and the services of an on-site warden.

However, these properties come with their own set of rules. These can include a range of hefty additional charges and exit fees on resale. Although retirement flats often provide a safe and secure environment for older people, they can be notoriously difficult to sell, meaning that if the owner needs to go into residential care, they can't rely on a quick sale to generate the cash needed to pay their fees.

The rise of the silver renters

There are currently 4.5 million privately-rented properties in the UK[2], and this figure is widely predicted to grow rapidly over the next few years. Many people in their 60s and 70s are now renting rather than owning. By doing so, they can access capital, supplement their pensions, or pass on money to their families. These new recruits to 'generation rent' are opting for properties both in the mainstream market and in the rapidly-growing number of specialist retirement developments.

Some want to enjoy a fresh start in a new location, and renting gives them the freedom they are looking for. Assured tenancies are now widely available, making it a more secure choice for older people, meaning they don't have to move again unless they want to. According to letting network, Countrywide, one in every 12 private rental sector tenants is a pensioner.

[1]HomeOwners Alliance, 2016

[2]English Housing Survey, 2017

...SINGLE STOREY PROPERTIES ACCOUNT FOR LESS THAN 1% OF NEW-BUILD HOMES, AND THE HIGH LEVEL OF DEMAND CREATED BY AN AGEING POPULATION MEANS THAT, IN SOME AREAS OF THE COUNTRY, BUNGALOWS CHANGE HANDS AT PRICES EQUIVALENT TO TWO-STOREY PROPERTIES.

WHY THERE'S NO SUBSTITUTE FOR HUMAN CONTACT WHEN BUYING A HOME

Getting a mortgage can be nerve-racking. There are lots of different deals on offer, so how do you find the right, most cost-effective deal for your circumstances? Should you fix the rate, if so, how long for? What about deals offering 'extras', would they suit your needs? Making the wrong choice about your mortgage could cost you hundreds or even thousands of pounds more than you need to pay.

By getting help, rather than trawling umpteen websites and spending hours putting in applications to a range of lenders, not only will you save yourself stress and time, you'll be able to tap into expert advice and guidance that can help ensure you make a success of your property purchase.

Advice on offer

Advisers like us to offer more than just a transactional service. We can help you work out how much you can afford to borrow, and explain what lenders are looking for when they assess your finances, and offer tips on streamlining your spending before you make your application.

Mortgages need to fit your circumstances; we can talk you through the features and benefits of different types of loans and explain the costs involved. We can assist you in completing the application form and ensure you include all the details that lenders will require to assess your application. Then we will help you present it in the best possible light to the right lender. If you need advice on choosing a surveyor or a solicitor, we can help here too.

Today, more than 70% of people looking for a mortgage choose to work with a broker, so if you'd like some advice with a human touch, then do get in contact.

Your home or property may be repossessed if you do not keep up repayments on your mortgage.

SECOND HOME OWNERSHIP UP 30%

New research by the Resolution Foundation[1] shows one in ten British adults now has a second property. Between 2000 and 2014, the proportion of adults owning more than one property rose by 30%. While overall home ownership has dropped this century as prices skyrocketed, it's estimated that 5.2m people own multiple properties. Surprisingly, about two-thirds of these owners aren't landlords – just 3.4% of adults (equivalent to 34% of the one in ten) are letting out their properties.

The appeal of owning a second property isn't hard to see. People with second homes not only have a property that they can sell if they need to, for instance to pay for care in later life, they also have the opportunity of earning rental income from it, albeit subject to some unhelpful tax changes. With interest rates remaining low, property returns can look far more attractive than savings accounts, though property values can fall.

Home ownership issues

Second homes include holiday cottages, flats used by other family members, city pads, and properties that have been inherited and where the new owners are still considering their options. With the number of people who do not own a home having risen sharply over the last 12 years – it's now 40% of adults, up from 35% in 2002 – housing campaigners have called for action to redress the balance. The introduction of additional rates of stamp duty on second homes was a move in that direction, as was the reduction in tax relief on mortgage interest paid by buy-to-let landlords that came into effect from April this year.

The continuing lack of affordable property for first-time buyers and essential workers has led to some local councils, notably St Ives in Cornwall, imposing a ban on the building of property for second home ownership.

[1]Resolution Foundation, 2017

Tax treatment depends on individual circumstances. Tax treatment, rates and allowances are subject to change.

BABY BOOMERS THREATENED BY PROPERTY PRICE CORRECTION

Some economic commentators are predicting that there could be a price correction in the housing market before too long. They believe that this could signal a drop in prices of anywhere between 20 and 40%. In the late 1980s and early 1990s, for example, prices fell by 40%.

Whilst a fall in prices would be welcomed by those would-be buyers who have struggled to get into the housing market because of the seemingly-relentless rise in prices, at the other end of the age-scale, those banking on the equity in their property to see them through retirement are unlikely to view the news in quite the same light.

Those likely to feel the effects of a major fall in prices would include large numbers of baby boomers who are currently retiring with insufficient pension provision to see them comfortably through retirement. Given that a couple in their mid-60s might realistically expect to be able to access around 25% of the value of their property under an equity release plan, then any correction could reduce the amount of cash available to them.

The Bank of Mum and Dad

The knock-on effect could mean that the Bank of Mum and Dad could find itself with less funds available to pass on to other family members. It's estimated that around one in four mortgages are now assisted by parental contribution, and the need for financial assistance doesn't end with the first property. Almost a third of homeowners looking to move up the property ladder, the so-called 'second-steppers', need to ask their family for a loan or gift to bridge their funding gap too. Research from Lloyds Bank shows that the support they are likely to need is on average £21,231.

However, while it's natural to want to help struggling offspring with their property purchases, it's important for parents to consider their own needs first, and not to give away money that could jeopardise their retirement. The short-term satisfaction gained from helping could easily be replaced by long-term problems if they were to find themselves short of money in later life.

If you could use some advice about planning your retirement, taking equity out of your home, or helping younger members of your family with their property needs, then do get in touch.

Your home or property may be repossessed if you do not keep up repayments on your mortgage.

THOSE LIKELY TO FEEL THE EFFECTS OF A MAJOR FALL IN PRICES WOULD INCLUDE LARGE NUMBERS OF BABY BOOMERS WHO ARE CURRENTLY RETIRING WITH INSUFFICIENT PENSION PROVISION TO SEE THEM COMFORTABLY THROUGH RETIREMENT.

INCOME PROTECTION TERMS – WHICH TO CHOOSE?

Research[1] shows that nearly a third of UK employees have no financial back-up plan if they were to lose their primary source of income. Income protection cover is designed to ensure that you continue to receive an income if you are unable to work as the result of an illness or accident.

Whether you need a long or short-term policy depends largely on how long you'd want your policy to pay you an income. Short-term policies generally pay out for a period of one or two years, and can help you pay your rent or mortgage and household expenses.

Long-term policies will usually provide a regular income until you are well enough to return to work, or until the end of the policy term. Whilst short-term policies can often provide cover if you are made redundant, this feature isn't usually to be found in long-term policies.

Long-term cover
With long-term policies, there are two main types of policy to choose from. The first will pay out if you are unable to carry out any aspect of your normal occupation due to an accident or illness. The alternative is referred to as 'any occupation' – this might be right for you if you'd be happy to take any job if you were unable to return to your usual occupation following an accident or sickness.

Both long and short-term cover can be important if you're self-employed, don't have sick pay or employee benefits to fall back on, or if you don't have sufficient savings to see you through a period without work due to sickness or disability. There are different kinds of policy available, and we can advise you on the type and length of cover that's best for your circumstances.

[1]Legal & General, 2017

NEARLY A THIRD OF UK EMPLOYEES HAVE NO FINANCIAL BACK-UP PLAN IF THEY WERE TO LOSE THEIR PRIMARY SOURCE OF INCOME.

BANK OF ENGLAND TIGHTENS RULES AROUND MORTGAGES – GEN UP

The housing market represents a major sector of the UK economy and the Bank of England keeps it under constant review. To control lending standards, the Bank has introduced new stricter lending criteria designed to prevent lenders getting too complacent about low interest rates and offering riskier loans to those who may not be able to repay them if interest rates start to rise or unemployment grows.

The new rules require lenders to apply an interest rate stress test to investigate if borrowers would still be able to afford their mortgage repayments if mortgage interest rates were to rise by three percentage points above the rate that will apply when their introductory offer ends.

When their offers end, borrowers can often find themselves moved to their lender's Standard Variable Rate (SVR) which can currently be as high as 5.75%, meaning the rate at which the new test is applied is 8.75%.

This move was made as the Bank's financial policy committee had found that some lenders were assuming that they would not pass all the three-point increase on to their SVRs, meaning they were prepared to lend slightly more to buyers. Under the new rules, lenders will now have to add the whole of the three-point rise to their SVRs when carrying out their stress tests.

However, this may not be the barrier to getting a mortgage that it might at first appear. Many lenders, especially those with high SVRs, have been routinely stress testing at this level since 2014 when the Bank first recommended it. The Bank estimates that if these rules had been in operation in 2016, mortgages approvals would only have fallen by 0.5%.

Your home or property may be repossessed if you do not keep up repayments on your mortgage.

WHEN YOU MIGHT NEED TO UPDATE YOUR CONTENTS COVER

Changes in circumstances can affect your home contents insurance policy, so if you move, change your name or just buy new things, you'll need to let your insurance company know.

As many people throw out some of their old possessions and buy new ones when they move, it's a good time to look at your policy and make sure it covers all your possessions and protects you against the right risks.

You might be surprised at how often the contents of your home can change. New clothes, household equipment, phones, laptops and gifts can quickly add up. Your policy will have a limit on individual items, this can be say, £2,000, and will be set out in your schedule. If you have possessions and valuables worth more than this limit, they will need to be specified separately in your policy, so you will need to let your insurance company know. Don't risk being underinsured, as that could mean your insurer will reduce the amount they will pay if you make a claim.

It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK.