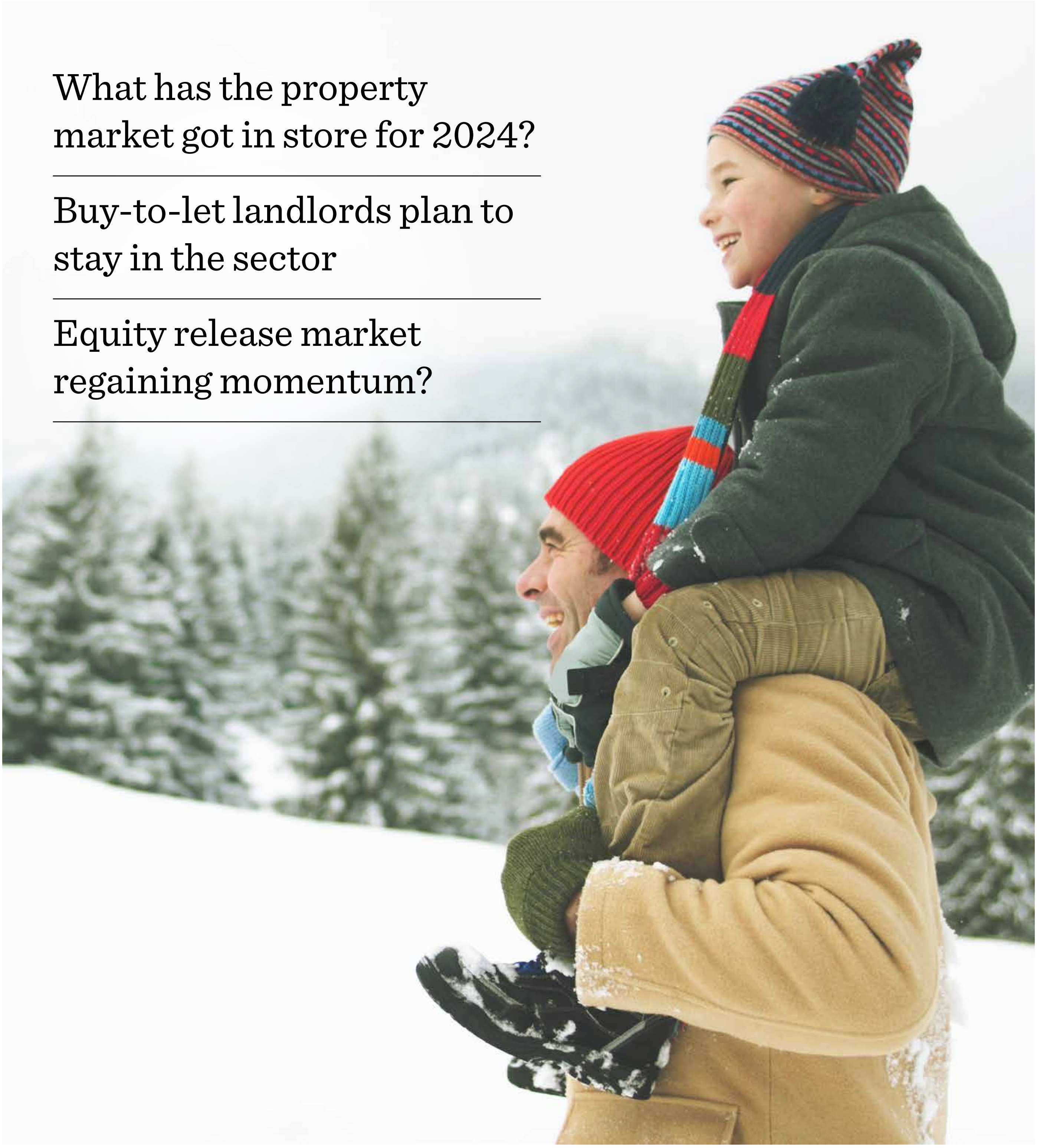
Essentially Mortgages



What has the property market got in store for 2024?

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Q1 2024

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Quilter Financial Advisers

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Welcome

Welcome to the Winter issue of Essentially Mortgages, bringing you all the latest news in the mortgage market.

We start by looking ahead to see what might happen in the housing market in 2024. We also remind ourselves of the impact of the Chancellor's Autumn Statement on homeowners (page 5), and look at how some are dealing with the prolonged higher interest rates (page 6).

With house prices having almost doubled in the last decade, find out how first time buyers are compromising in order to get on the property ladder (page 6). If you are wanting to help a first time buyer, read our article on page 7 which highlights why you should take some advice first.

These are just a few of the highlights. We hope you enjoy this issue, and thanks for investing with or considering Quilter.

What has the property market got in store for 2024?

2023 was not the most predictable of years for the property market. So, as we begin 2024, what's in store for homeowners and movers?

There are three questions on the minds of analysts and house buyers alike: Will asking prices continue to fall? Will mortgage rates drop, and by how much? And lastly, will housing affordability improve?

House prices predicted to fall again

With the average asking price dropping by 1.3% in 2023[1], many analysts predict prices will continue to decrease this year. While Rightmove forecasts a fall of 1%, others[2] believe prices could plummet by as much as 10%. This is largely due to the ongoing cost-of-living crisis, and a pressure on sellers to price competitively in a buyer's market.

Tim Bannister of Rightmove commented, *"In areas where sellers are struggling to attract affordability-stretched buyers or needing to sell quickly due to a change of circumstance, new job opportunity, or strong desire for a lifestyle change, we are likely to see even more competitive pricing."*

Will mortgage rates drop, too?

Despite mortgage rates declining in the second half of last year, the consensus is they will continue to remain high; some analysts[3] predict they will not lower to 4.5% until H2 of 2024 and the Bank of England has advised to not expect an immediate dip in interest rates. There are, however, some positive signs that both mortgage and interest rates have peaked.

Is mortgage affordability improving?

Mortgages became a little more affordable at the tail end of 2023 – in September, the average monthly repayment for those purchasing was £64 lower per month than in July[4]. On the other hand, the Bank of England expects that, by the end of this year, the number of households with increased mortgage payments will have risen by 1.6%.

Here to help

We can help you navigate the changing property and mortgage markets in 2024.

[1]Rightmove, 2023, [2]finder.com, 2023, [3]Zoopla, 2023, [4]Octane Capital, 2023

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Buy-to-let landlords plan to stay in the sector

Despite bracing themselves for an 80% increase in the cost of borrowing, buy-to-let (BTL) landlords remain optimistic as over half intend to buy more property in the next five years according to a survey[5].

Meeting increased tenant demand

With only 21% of mortgaged landlords expecting to sell property, many are hopeful that supply will begin to meet the increased demand for rental properties. Kate Davies of IMLA commented, *"It is a great relief that so many plan to stay in the sector and increase supply when they can."*

Making the most of lower prices

BTL landlords are not only motivated by the rising demand from tenants – in another study[6], 34% of those with plans to buy said they were driven by the fall in asking prices. This is particularly prominent in areas where property is not usually as expensive, such as the Midlands.

Others proceeding with caution

Not everyone is so keen to build their property portfolio, with 43% not looking to buy in 2024. The higher interest rates have acted as a deterrent, as has the much anticipated and delayed Renters (Reform) Bill, which is currently making its way through Parliament before it can pass into law.

If you're looking to expand your property portfolio this year, get in touch for mortgage advice.

[5]IMLA, 2023, [6]Landbay, 2023

Equity release market regaining momentum?

Statistics[7] indicate that the equity release market is slowly recovering after a rocky few years.

Despite lending activity being at the same low levels as H1 of 2017, there are signs of growth. In the third quarter of last year, new equity release customers rose by 10% and total lending increased by 8% to £716m. In that same period, there were 17,078 new and existing customers using equity release products.

David Burrowes, Chair of the Equity Release Council (ERC), commented, *"While the clock has been wound back on lending activity and loan sizes, product innovation has increased the flexibility of lifetime mortgages."*

Benefits of lifetime mortgages

Lifetime mortgages are the most common form of equity release, allowing those over 55 to benefit from the value of their home without having to sell. Certain products now allow customers to take out extra loans and make voluntarily repayments without fearing their home will be repossessed if they are no longer in a position to pay the money back.

Supporting younger generations

Recently, an increasing number of people have been using the money they have unlocked to support their family members. A survey[8] found that 18% of parents and grandparents who helped younger generations onto the property ladder used their own property wealth to do so (via equity release, downsizing or re-mortgaging).

Before releasing equity on your property, it is important to consider the pros and cons, it's not suitable for everyone.

Some Buy to Lets are not regulated by the Financial Conduct Authority

[7]ERC, 2023, [8]L&G, 2023

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Update on the Autumn Statement

The Autumn Statement was delivered by Chancellor of the Exchequer, Jeremy Hunt, on 22 November last year. While there was a host of announcements on measures for business and personal taxation, housing was largely absent. There are, however, a few points to be aware of.

Extension of mortgage guarantee scheme

This scheme was introduced in March 2021 when mortgages with a higher loan-to-value (LTV) ratio were depleting. The aim was to give lenders the confidence to keep offering higher LTV mortgages so more first-time-buyers could get on the property ladder. The scheme enables borrowers with smaller deposits to take out a mortgage with a 5% deposit on a home worth up to £600,000. The government gives the mortgage lender a guarantee of up to 15% if the borrower defaults on their repayments.

The scheme was due to end in December 2023, but it will be extended by 18 months until the end of June 2025. It is available to those buying a home they plan to live in using a repayment mortgage. It does not apply to buy-to-let investments, or to those purchasing a holiday home or second home. Only loans set at a maximum of 4.5 times income qualify for the scheme.

Change in permitted development rights

The Chancellor also announced a consultation into scrapping planning permission for property owners wishing to convert one house into two flats. It will only be permitted in cases where the exterior of the home does not change. This could be good news for property investors and the private rented sector, which is currently trying to keep up with the ongoing demand for rental accommodation.

Housing and planning investment

During the Statement, a further £32m was pledged towards the development of thousands of homes across the country, including funding to tackle planning backlogs in Local Planning Authorities (LPA).

Garden offices: not just a pandemic craze

In the heart of lockdown, with frustrated home workers seeking an escape from the kitchen table, garden offices experienced a surge in popularity. Some expected the craze to end with the pandemic. In 2024, however, it seems that garden offices might be here to stay.

Searches rise

Searches for 'garden offices' are 22% higher than before the pandemic[9], research shows. With hybrid working having become the norm for many employees, interest in garden offices is staying strong. Indeed, the boost to 'garden office' searches corresponds with the number of searches for 'hybrid working' increasing from an annual average of 120 searches before the first lockdown to nearly 119,000 searches in 2022/2023.

A lasting trend

The last decade has seen a significant rise in the number of properties listed as having an office in the garden. Another pandemic trend – the 'race for space' – may have ended but green space and a good home work environment are still appealing.

[9]L&G, 2023

BoE: Higher rates pushing people towards longer mortgage deals

The past couple of years have tested people's resilience in the face of soaring inflation, higher interest rates and, for many, a cost-of-living squeeze on incomes.

In a recent Financial Policy Summary, the Bank of England (BoE) noted that many homeowners are still feeling the effects of higher interest rates – and many are dealing with them by increasing borrowing.

Longer mortgage deals

One result of these higher rates has been that some households have extended the length of their mortgage term. According to the report, there has been *'a notable increase in the proportion of borrowers taking out mortgages with 35 year or above terms.'*

Indeed, the proportion of mortgages lasting 35 years or more rose from 4% in the first three months of 2023 to 12% in the second quarter[10].

The BoE explained that, while taking out a longer mortgage term does offer short-term relief, there were risks involved, notably the fact that *'it could result in higher debt burdens in the future.'*

Credit card use on the rise

Likewise, the BoE expressed concern that people feeling the pinch could start borrowing larger amounts on credit cards. So far, the annual rate of credit card spending growth has stayed relatively stable at 11.8%, though the BoE warned that the trend *'could lead to greater debt vulnerability for households in the near term'.*

[10]BoE, 2023

First-time buyers turn to 'up-and-coming' areas to get on the ladder

First-time buyers (FTBs) are prepared to compromise on their priorities to get a foot on the housing ladder, a report[11] has revealed.

Prepared to compromise

Since house prices for FTBs have almost doubled in the last decade, it is hardly surprising that an increasing number are no longer holding out for their ideal home.

Young people's desire to own their first property is still high (87%). With prices making this ambition harder, a growing number are willing to compromise on their priorities. This is especially true for the third (33%), who say they want to get on the ladder as soon as possible.

Anywhere will do

Almost half (44%) of prospective first-time buyers looking to get on the housing ladder are now researching locations they wouldn't have considered prior to the cost-of-living crisis. Moreover, more than six in ten say they are prepared to move to a different part of the country to get on the housing ladder.

The best for first time buyers

In this context, the report lists ten up-and-coming areas that FTBs are honing in on. These areas rank well for lower average purchase prices compared to the surrounding region, as well as other FTB priorities such as low crime rates, good transport links to major cities, access to good schools, proximity to green spaces, ultrafast broadband availability and investment in local regeneration.

At the top of the list are Kingston upon Hull, Middlesborough, Neath Port Talbot, Derry City and Strabane, and Falkirk.

[11]Halifax, 2023

Should I overpay my mortgage?

As a mortgage holder with some extra disposable income, the prospect of paying it off sooner can be appealing. But if you do want to overpay your mortgage, it's important to check your lender's terms and conditions.

Why overpay your mortgage?

The most obvious reason to overpay your mortgage is that you'll be moving a step closer to being mortgage free – a nice position to be in!

There's more to it than that, though. As well as reducing your debt, you'll also bring down the amount of interest you pay. For example, if you have £150,000 left on a 20-year mortgage on a 6% rate and overpay a lump sum of £15,000 (10%), you'll pay off your mortgage two years and seven months earlier than without the overpayment. And you'll save £29,600 in interest!

By overpaying your mortgage, you could also cut your LTV, which is the proportion of your property price covered by your mortgage. A lower LTV might give you access to lower interest rates. So, overpaying on your mortgage could result in an even cheaper deal when you come to remortgage.

Is overpaying right for me?

Whether or not overpaying your mortgage is a good idea can depend on the interest you could get in a savings account. If you put £15,000 cash in a savings account paying 4% interest, you'd earn £600 per year, significantly below the saving from the overpayment.

However, one case where overpayments will likely result in worse outcomes is if you don't follow your lender's rules. Most lenders will let you overpay by around 10% a year. After this, you will have to pay Early Repayment Charges (ERC), which are usually between 1% and 5% of the balance. That's why it's always best to check the terms and conditions of your deal before making overpayments.

Seek advice before making first time buyer gifts

Nearly one in five parents and grandparents who helped a family member buy their first home used their own property wealth to do so, new research[12] has shown, raising concerns that some might be leaving themselves short.

Families help out

First-time buyers (FTBs) are increasingly relying on family members' support to get on the housing ladder. In total, 42% of parents and grandparents aged over 55 have helped fund a family member's property purchase.

Parents and grandparents eager to help out are in turn using a combination of their savings (68%), investments (22%) and pension (14%) to find the funding.

Many not seeking advice

The research showed that 18% have used their own home to generate the money, either through equity release, downsizing or re-mortgaging. It also found that 72% of parents and grandparents don't seek formal advice before making gifts.

Here to help

Making a gift to a family member to buy their first home can be a rewarding way to use your hard-earned money. But it's important to think about your own needs. We're here to help you make a balanced decision that's right for your unique situation.

[12] L&G and CEBR, 2023

Key Statistics

42%

of parents and grandparents aged over 55 have helped fund a family member's property purchase.

72%

of parents and grandparents don't seek formal advice before making gifts.

Sellers gazundered in a buyer's market

Gazundering

Last year, there was a 97% increase[13] in people searching for the word 'gazundering' – when a homebuyer reduces their offer on a property at the last minute, sometimes just before completion. This leaves the seller in a difficult position, often without much choice but to accept a lower price. Gazundering is indicative of a buyer's market where there are more properties on sale than people wanting to buy.

Gazumping

In periods where the tables are turned and the market favours the seller, gazumping may occur more – this is when a seller receives a higher offer from someone else, even though the transaction process has started with a different buyer.

Stricter rules in Scotland

Interestingly, both gazundering and gazumping are not as commonplace in Scotland – while it does still happen, Law Society of Scotland has rules in place to prevent gazundering and gazumping. Solicitors acting on behalf of property buyers are not permitted to lower their initial offer, while those representing property sellers cannot accept an offer from another buyer.

[13]GetAgent.co.uk, 2023

Protecting your home against storms this winter

Antoni and Agnes, Betty and Babet – all were names of storms in 2023. With climate change making extreme weather increasingly common, it is important to be prepared – particularly as the average claim for storm damage is over £3,000[14]. But what steps can you take to protect your home?

Precautionary measures

- Secure or put away any items that could blow away, such as garden furniture
- Park vehicles a safe distance from fences, walls and trees
- Ensure all doors and windows are firmly shut.

Insurance is key

The most important thing to do is take out appropriate home insurance. Most policies will cover you for some level of wind and storm damage, however it is important to read the small print as there are limitations – for many insurers, winds need to hit a certain speed before it can officially be considered a storm.

After damage is done

Most home insurance will cover you in the event of roof damage, frozen pipes, and wind or water damage. It is important to contact your provider as soon as possible – many insurers have 24-hour helplines for this purpose. Take photos and do not move anything unless it is a hazard – this will all help support your claim.

Contact us to arrange appropriate cover for you and your home.

[14]Confused.com, 2023

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