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ESSENTIALLY MORTGAGES

Q3 2023 ISSUE 29

UPS AND DOWNS OF THE HOUSING AND MORTGAGE MARKETS

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UPS AND DOWNS OF THE HOUSING AND MORTGAGE MARKETS

Summer is here and activity in the housing and mortgage markets is hotting up... and cooling down! Latest data from the Royal Institution of Chartered Surveyors has good news on housing supply, with a run of thirteen successive negative monthly readings for new instructions coming to an end with a positive reading in May. This is the strongest reading for new listings since March 2021[1]. Yet many commentators are predicting a fall in house prices in the second half of the year.

House price outlook

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-year[2]. It remains to be seen which direction the market will take in the second half of 2023.

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

Bank Rate

Meanwhile, the Bank of England's (BoE's) Monetary Policy Committee (MPC) increased Bank Rate in June. Borrowing costs are now at their highest level since 2008. Those with tracker or variable rates have seen immediate higher repayments and those on fixed rates are contemplating their next move.

Return of the 100% LTV mortgage

One especially noteworthy development is 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. Otherwise, 100% LTV mortgages generally require a guarantor to cover any missed repayments.

Keeping our finger on the pulse

Whatever happens in the coming months, we're here to help with your mortgage needs.

[1]RICS, 2023, [2]Halifax, 2023

THE RIGHT INSURANCE FOR HOME IMPROVEMENTS

Are you considering giving your property a new lease of life with a renovation? 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.

Before you start work

As well as seeking any necessary planning permission, producing detailed plans and choosing your contractors, an early priority should be to contact your home insurer. This is because, if you don't tell your insurance provider about your building work, such as adding an extension, you could accidentally invalidate your policy.

Risks and rewards

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

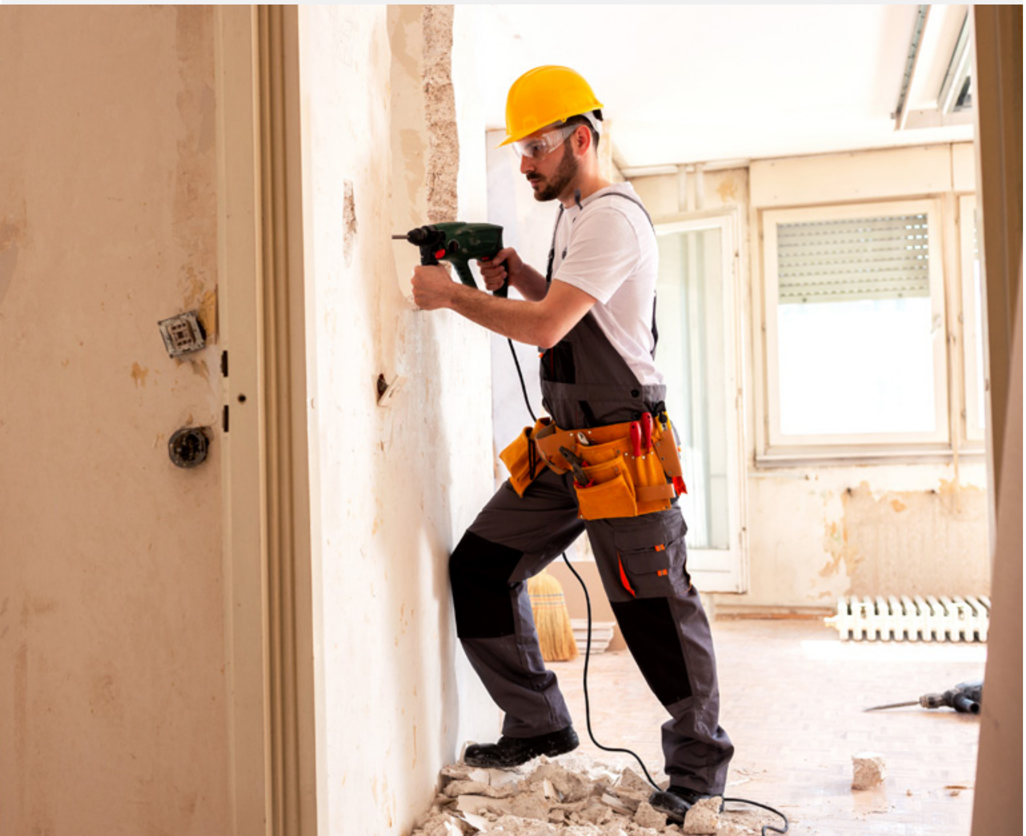
- Structural risks – Knocking down walls could cause unexpected damage or an accident. And structural work could expose your home to the elements for long periods of time, potentially putting it at risk of damage
- Security risks – During building work, your home may be less secure. If you temporarily move out, scaffolding can make intruder access easier. With a lot of tradespeople coming and going, there is a risk that doors and windows could be left open.

The first step should be to contact your insurer to check if your home will be covered and to find out whether you'll need additional or specialist cover for it to be fully protected.

Rebuild costs

Remember too that building work, such as an extension, will likely increase how much it would cost to rebuild your home, meaning that you may need a higher level of home insurance cover.

THE FIRST STEP SHOULD BE TO CONTACT YOUR INSURER TO CHECK IF YOUR HOME WILL BE COVERED



MORTGAGE REPAYMENTS RISE

Buyers are paying up to 60% more on their monthly mortgage repayments compared to December 2021, according to research[3].

The 6% barrier has now been breached for the average two-year fixed rate deal, according to Moneyfacts, leaving those who need to remortgage or buy a home facing the prospect of much higher monthly bills.

Mortgage experts are divided on when rates will fall as there are too many variables at play and caution homebuyers not to rely on any sharp declines in interest rates happening soon, as well as planning for the eventuality that mortgage rates may remain at relatively high levels for some time.

Worried about your mortgage repayments? Get in touch.

[3]Mortgage Strategy, 2023

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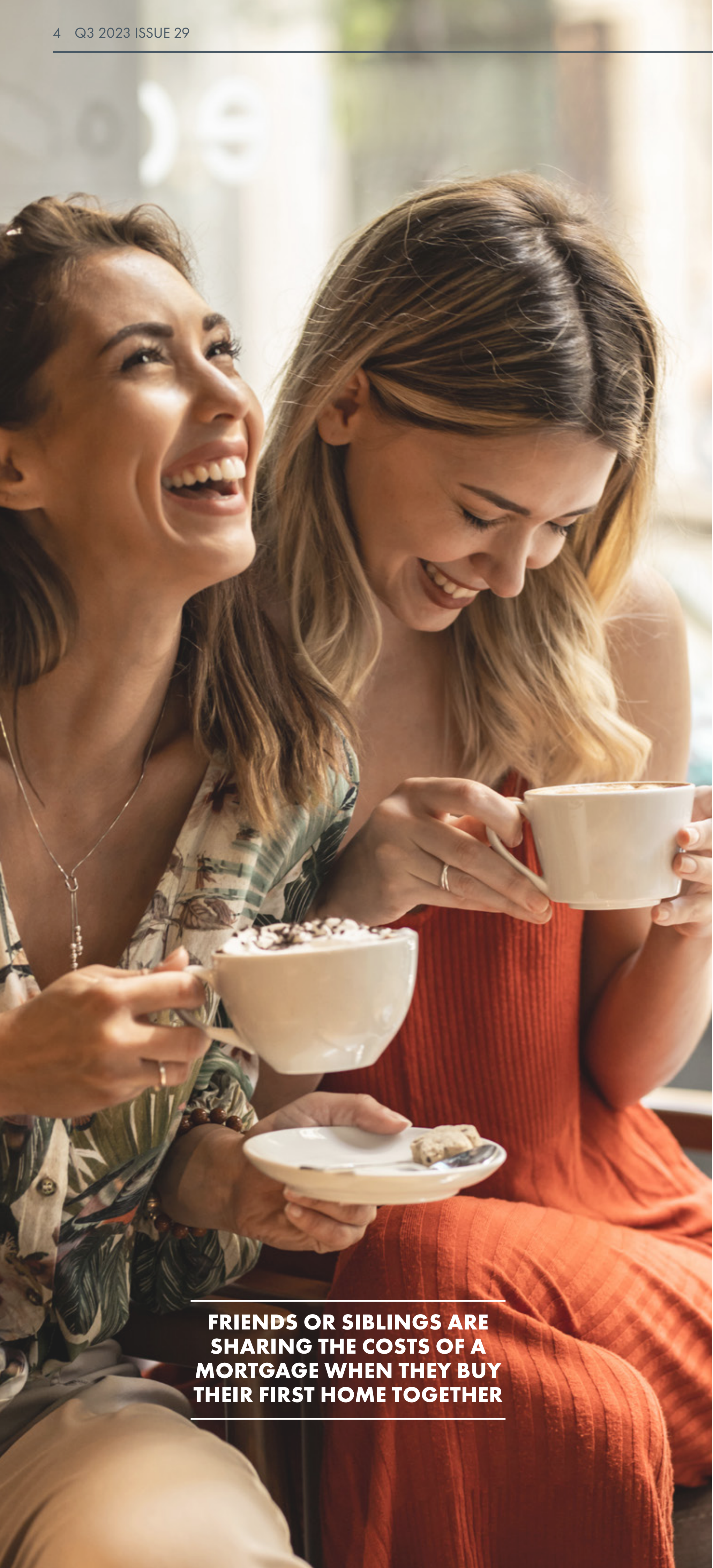


FRIENDS OR SIBLINGS ARE SHARING THE COSTS OF A MORTGAGE WHEN THEY BUY THEIR FIRST HOME TOGETHER

FTBs SPLIT MORTGAGE COSTS

Traditionally, when thinking about taking on a mortgage with someone else, most people picture a couple. Increasingly, however, friends or siblings are sharing the costs of a mortgage 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 one[4].

Buying with someone else means you can split the costs, including saving up enough money to pay the deposit, which is one of the biggest hurdles for FTBs. Sharing the mortgage allows buyers to divide the burden. Likewise, monthly payments can be made jointly and your combined earnings will be used to determine how much you can borrow.

Legal ownership – joint or tenants-in-common?

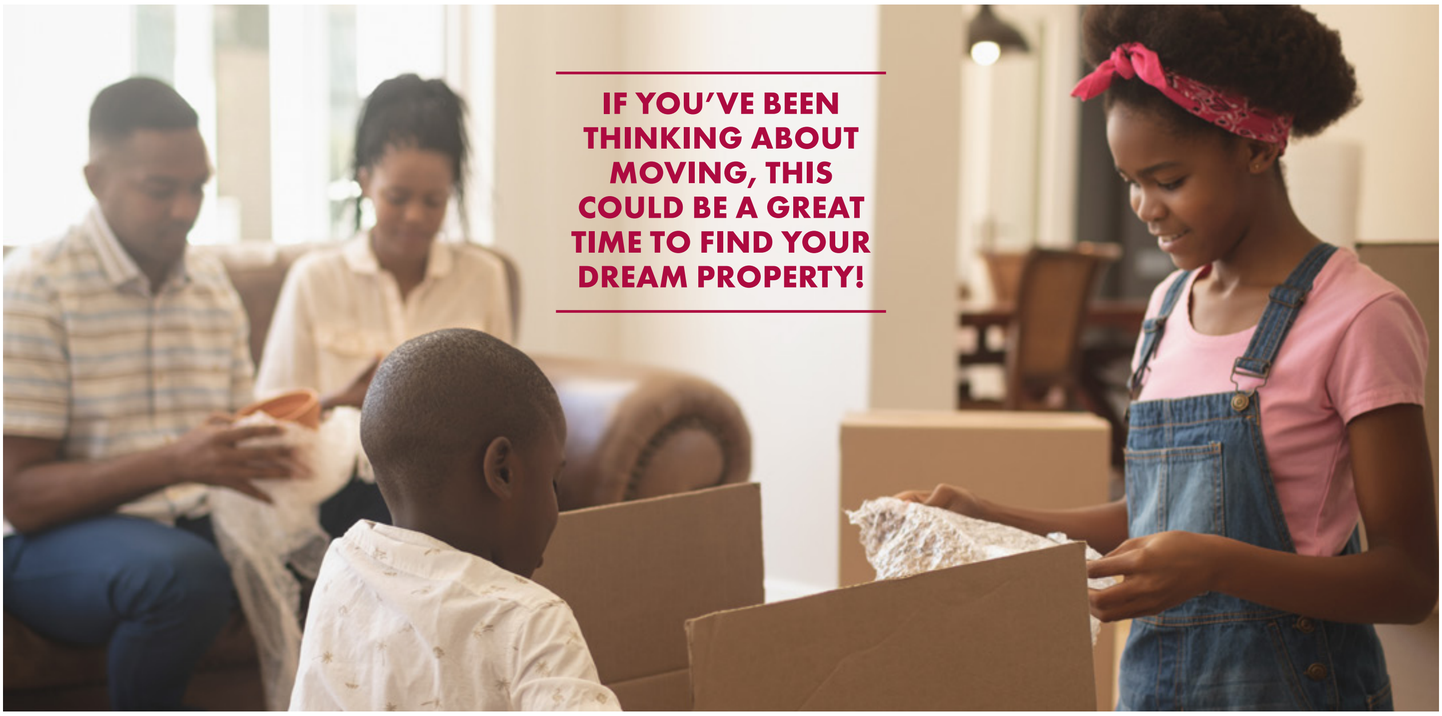
A shared mortgage works the same way as a normal residential mortgage, with lenders usually allowing groups of up to four people to apply for a shared mortgage. The big decision is whether to be joint tenants or tenants in common:

- 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 owner-borrower die, the others will inherit their share (so there are legal aspects to consider)
- 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.

Trusting each other

Before applying for a shared mortgage with a group of friends, make sure you understand fully 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.

[4]Halifax, 2023



HOUSING STOCK ON THE UP

The number of residential properties up for sale has increased according to latest data[5], which could further strengthen 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. And with interest rates rising sharply in the past year some potential sellers have put their moving plans on ice.

The survey data shows new instructions rose significantly in May to mark the strongest reading for new listings since March 2021. Alongside that, estate agents reported having an average of 38 homes for sale per branch in May. This is a significant rise from around a year ago when there were typically only 20 properties per branch up for sale.

Get moving
Figures for sales agreed are steady and 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!

[5]RICS, 2023

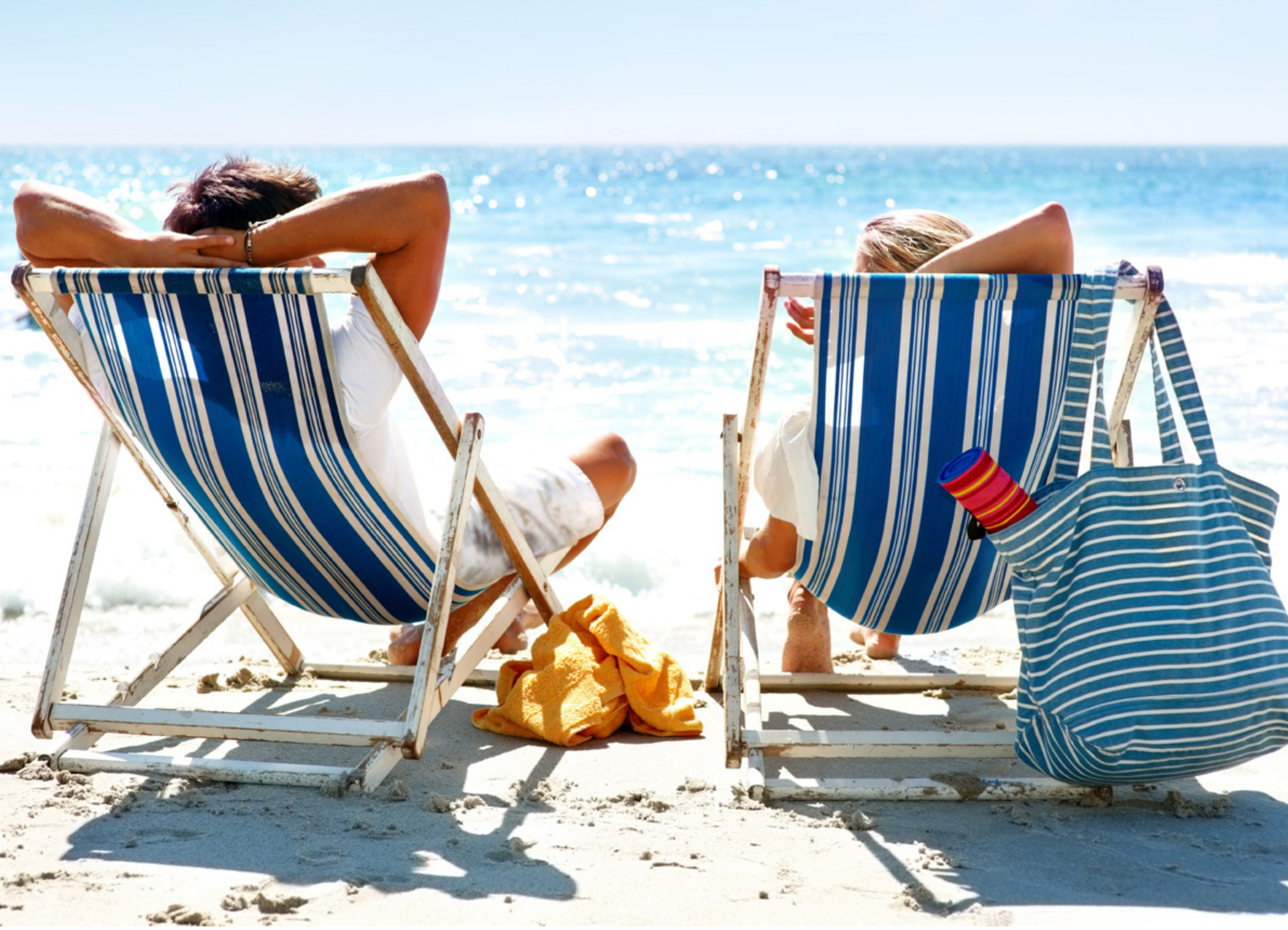
FLATS ARE BACK IN DEMAND

Agreed residential sales are now just 3% behind the last more normal pre-pandemic market of 2019. The recovery in recent months appears to be largely driven by sales of flats, particularly in London and other major cities, as people return to office working.

Across all property types, flat sales are up by around 11% when compared to March 2019. Sales agreed on flats alone in the capital are up 23%, compared to the same period in 2019[6].

According to the latest government House Price Index, the average flat or maisonette in the UK now costs £229,752, an increase of 2.7% from the same time last year, when the average price was £223,686.

[6]Rightmove, 2023



RETIRING LANDLORDS LEAVE A GAP

Older buy-to-let (BTL) landlords are selling up in large numbers, new analysis suggests[7], leaving a void when they 'retire' from the business.

Increasing in age

The median age of individual residential 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 the BTL market last year, the analysis shows, close to three quarters of all such property sales. The figure is likely to keep rising over the coming years, with around 96,000 landlords across the UK due to turn 65 every year.

Shifting landscape

The recent surge in selling comes partly from a shifting landscape, with a raft 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 encourage BTL landlords to move on.

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.

We're here to help

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

[7]Hamptons, 2023

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STAYING PUT

The housing ladder has several stages – first home, family home... then what? Maybe nothing, new research suggests[8], more older homeowners are staying put, with no plans to downsize.

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 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%).

The whole process of moving home was also called into question as being *'exhausting'* (22%) and that a move would not bring any financial benefit once costs were considered (16%).

Positive 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 in retirement.

[8]Key, 2023

HOLIDAY LETS COULD FACE BIG CHANGES

The government is planning a crackdown on short-term holiday lets, which could mean that homes converted into short-term holiday lets require planning permission in future.

Conversion crackdown

The motivation for the crackdown is to stop 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.

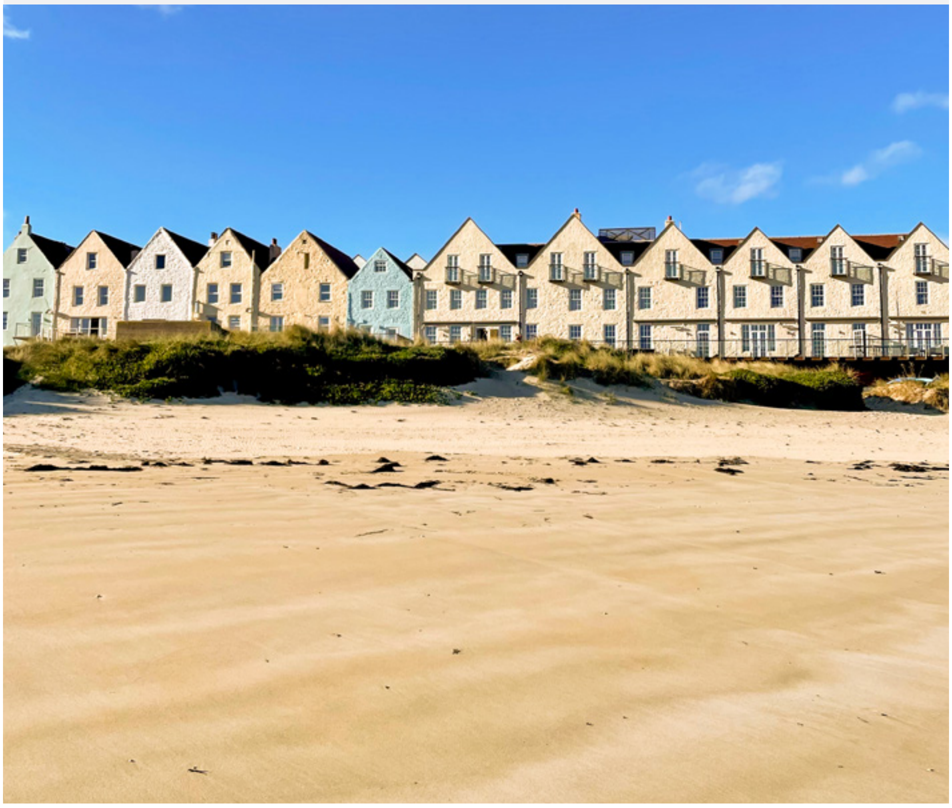
The rules could introduce a new category for holiday lets and make them subject to local planning controls, which, the government hopes, will deter such activities.

"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."*

The government has stated that consultations on this plan and other proposals for short-term holiday lets will take place.

THE RULES COULD INTRODUCE A NEW CATEGORY FOR HOLIDAY LETS AND MAKE THEM SUBJECT TO LOCAL PLANNING CONTROLS



CONSIDERING AXING YOUR LIFE INSURANCE? THINK TWICE!

Continued high inflation is prompting many people, particularly those over 50, to question whether paying for life insurance is money well spent. These findings[9] have sparked fears of vulnerabilities.

Cutting costs

The survey of 1,000 over 50s has shown that 22% of customers are thinking about cancelling their monthly premiums because 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 family further down the line. As well as leaving your loved ones without vital protection now, if you cancel your policy, it will likely cost you more in the future should you choose to take out a new plan.

Gender imbalance

More women are considering cancelling 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.

20% OF WOMEN WITH AN OVER-50S LIFE INSURANCE PLAN ARE CONSIDERING NO LONGER PAYING, COMPARED WITH 17% OF MEN

Take time

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 premiums, it is important to think of the wider impacts for your financial commitments and your family. Get in touch to discuss your options.

[9]Scottish Friendly, 2023

GET TO KNOW YOUR REBUILDING COSTS

Roughly nine in 10 households have underestimated the amount of cover they need on their property insurance to rebuild their property[10]. This under insurance could leave homeowners seriously out of pocket in the event of a fire or other unforeseen event damaging their property.

The insurance value of a property isn't based on its mortgage valuation or a percentage of its market value – it's based on how much you would need to rebuild the home from scratch, including the cost of clearing the site.

Rebuilding costs have shot up by 18% in a year, largely due to an increase in the cost of materials such as insulation (up by 62%), windows (49%) and plasterboard (46%). These soaring prices have resulted in the average three-bed semi-detached home now costing £53,000 more to rebuild than it would have in February 2022.

[10]Building Cost Information Service, 2023

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