



BRISTOL RESEARCH

MAY 2020

RESIDENTIAL MARKET REPORT



IS THIS A GOOD TIME TO BUY YOUR FIRST HOME IN BRISTOL?

Should you wait to buy your first home in Bristol or buy now? What sort of mortgages are available? What sort of deposit is required? These are questions all Bristol buyers are asking at the moment, yet this week I would like to focus on Bristol first time buyers and what it means directly and indirectly to Bristol homeowners looking to move up the Bristol property ladder and Bristol buy to let landlords.

Well quite frankly, to answer that question it's contingent on what Bristol property you are looking to move into and even more significantly, how long you are hoping to live in that property.

We have many armchair economists and even professional economists predicting Armageddon when it comes to the property market, yet the Bristol (and UK) property market is essentially very sound. Don't forget the Chancellor himself, George Osborne warned that if we voted to leave the EU two things would happen. Firstly, the UK property market would crash and property values would drop by 18% in the two years after the vote. Secondly, there would be an 'economic shock' to the country's economy that would increase the cost of mortgages (through increased interest rates as there would be a run on the Pound). UK GDP rose by £132bn in the two years after the referendum and interest rates actually dropped locally, with regard to property values ...

Lloyds have predicted an enormous 30% fall in property prices over the next 36 months whilst Savills have suggested a short dip of 5% during the summer, based on very low transactions numbers, with property prices bouncing back to be just over 15% higher in 5 years' time. This assumes that the UK plc economic downturn is short & sharp, and that no substantial gap opens up between supply and demand in the property market (i.e. everyone doesn't dump their property market all at the same time).

Yet, the circumstances of the 2008/9 property crash were fundamentally different to today. Many 'armchair economists' assume there will be a re-run of the 2008/9 and 1988 property crashes in the coming 12 months in terms of house value falls. Yet, dissimilar to the last recession, this dip has not been led by previous years of strong property price growth like the other two crashes. House prices in many parts of the UK have been down in the last 12 months.

You would think Bristol first-time buyers who have already saved their deposit could grab a bargain in the coming months, you would believe they would have less competition in the market because of landlords holding back buying additional rental properties. This is because of the press speculation that rent arrears are sky high from tenants who are unable to pay their rent. Yet evidence from many professional bodies in the private rental sector state rent arrears across the whole of the Country are appearing to be very low indeed, despite Covid-19.

Interestingly, the firm Yomdel who handles 'web live chat' and 'phone support' for thousands of estate and letting agents have reported national activity is higher than the two months of the Boris Bounce (in January and February 2020). The number of new buyer enquiries for the last two weeks is double (108.9% higher to be precise) than the 2019 yearly rolling average. New landlord enquiries are 32.1% higher than the 2019 average and tenants are 150.1% higher than the 2019 average ... these are all great signs and go against the doom monger economists.

My best advice to all Bristol property buyers is, be they second time buyers, first time buyers, landlords ... whatever number buyers, they should buy with a medium-term view of future Bristol property values, instead of an expectation of always looking to making a quick few pounds flipping a property (i.e. selling it quickly).

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Let's not forget that mortgage interest rates are another important factor: they are at a 325-year low, so borrowing money has never been so inexpensive. If you know you are going to be living in your first (or second) Bristol home for five years and you want the peace of mind of knowing precisely what your mortgage payments will be, then it's very attractive. At the time of writing, Barclays are offering any first-time buyer a 95% mortgage on a 5-year fixed rate of 2.95%.

Many lenders are lending money even if you are on furlough, yet you may find you won't be able to borrow as much pre Covid-19. Interestingly, some mortgage companies will even take into account total income, where your employer is topping up the Government's furloughed amount, whilst other lenders will consider mortgage applications on a case-by-case basis. The best advice I can give is, don't assume what you can or can't borrow. Speak to a whole of market mortgage broker, to see what is possible – not what your friend on Facebook tells you, what you can or can't borrow.

You only need to put down a 5% deposit for the property you would like to buy

If you think about it, it's inconsequential if Bristol property values drop or not, or if they do drop whether they bounce back quickly (or not as the case maybe) because it's impossible to know the bottom of the property market. I would say if you find the right Bristol property for you, at the price that feels right, that will be your home together and you are going live in that Bristol property for the next five to ten years, it's not a bad time to be buying. It is like waiting for the next piece of tech – there will always be a better model or an assumed better time. We are talking about your home here – a home for you and your partner and family, be that your kids, dog, cat, pet or favourite pot plant because ...

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Spending money on rent is all wasted money – at least when you buy your own home, you start to pay your mortgage off from day 1

So many first-time buyers use the Bank of Mum and Dad to help with their deposit, yet I have spoken to many parents who wouldn't want to interfere in their mature children's life and subsidise day to day expenditure, yet are embarrassed to offer their help with the deposit. If you don't ask ...you don't get!

THE LOCKDOWN LANDLORDS OF BRISTOL

Despite Government regulations that have been in place since the 26 March 2020, when in-person viewings were made illegal, Bristol buy to let landlords have during that time been chomping at the bit to build their property empire by looking at buying additional properties for their Bristol buy to let portfolio.

There are plenty of investors who think nothing of legally committing to buying a property 'off plan' before it's built – yet over the last few weeks, it has become the norm in the second-hand Bristol property market and they have now stolen a march and bagged some property bargains.

Normally, the face-to-face viewing is step one of the second-hand house buying process .. yet now it's becoming the 'new normal' that some Bristol agents are carrying out semi-professional video viewings or 360-degree video tours. Even homeowners are getting in on the act and managing a Facetime or Zoom video viewing by walking around their house with their mobile phone.

Yet the Government announced on Wednesday, 13th May 2020 that the Estate & Letting Agency industry could reopen meaning people could view houses, visit agents and move home be they tenants, buyers, landlords or home-sellers. This is all subject to general and specific social distancing rules, specific hygiene regulations and suitable PPE being used.

What has been happening in the last few weeks in the Bristol property market?

The average time between sale agreed and exchange/completion of contracts on a house sale (i.e. the keys and monies get sorted) is 17 to 19 weeks, which means buying today would mean you wouldn't be getting your hands on the property until late September or October at the earliest.

Spring is the time when most properties come onto the market, yet as one would expect, the number of Bristol properties coming onto the market has been somewhat reduced since lockdown as..

239 Bristol properties have been put up for sale in the last month

This reduction in supply of new properties coming onto the market combined with this pent-up demand from both Bristol landlords and the 'Boris-Bounce' could in fact be good news for the Bristol property market, let me explain...

Rightmove stated that people going to their website initially dropped by 40% at the start of lockdown, yet now has recovered, with a near doubling of people searching for properties with gardens (for both sales and renting). For many Bristol buy to let landlords (and in fact Bristol homebuyers) now is the very best time to do research into the Bristol property market. All the portals have access to 25 years of property sales with pictures, so you can compare and contrast what has happened to various different property types around Bristol to spot those under-priced bargains, meaning you can get moving quickly after lockdown.

Rather than feeling trapped or powerless, this time can be used fruitfully by Bristol buyers and Bristol sellers to get their ducks in a row

One of the biggest barriers in April was mortgage lending. In the early days of the pandemic, most mortgage lenders removed many of their best deals and enormously restricted their capacity. Currently, though, we are seeing a revitalisation in the mortgage market. In May, with many mortgage products becoming accessible again for borrowers, and with many mortgage companies integrating more digital processes (including Virtual Surveyor Mortgage Valuations in some cases) the mortgage market now has plenty of options available to those who are keen to obtain borrowing.

There is no doubt the Bristol housing market got off to a sturdy start in 2020. With Brexit at least partly resolved, the 'Boris-Bounce' was starting to take off. With Bristol house prices being robust and rental demand was high, the Bristol property market was already in a good place to deal with the subsequent Covid-19 issue.

I know there are a few doom mongers in the National Press spouting about a massive crash in the UK property market. There is a natural tendency for newspapers to latch onto the worst-case scenario in any economic forecast. Who can forget the country received similar projections in the lead-up to the 2016 Brexit vote with HMRC itself stating that UK house values would drop by at least 10% in the first 12 months should the UK vote for Brexit and 20% in two years!

With the roller coaster of the stock market in recent months, investing one's money into good old-fashioned bricks and mortar has started to seem a good place again.

Buying a property for investment means you have a tangible asset, something you can touch and feel (and understand). The returns from investing in property come from both capital appreciation and income from the rent, and yes whilst property values can go up as well as down, successful buy to let landlords are inclined to take a long-term view on their property investments.

£1,246 per month The average gross profit from a Bristol terraced/town house

To give you an example of the current buy to let returns, the average Bristol terraced/town house sells for £302,000. By taking the 'The Mortgage Works' BTL 5-year fixed rate of 1.64%, with £3,640 in up-front fees, a 20-year repayment mortgage would cost you £890 per month or interest only mortgage would only cost £249 per month .. considering the average rent for a terraced/town house in Bristol is £1,495 per month .. even before management, tax, maintenance and other associated costs, that's a decent gross profit (the £1,246 gross profit is an illustrative example using the interest only mortgage and the capital element would need repaying at the end of the term).

Isn't it funny the newspapers aren't latching on to some reports to say the property market might go in the other direction? Remember - bad news sells newspapers!

So, should you wait to buy your Bristol buy to let investment?

Before you buy consider factors like the strength of your financial future, your credit score, the current state of the property market and even more importantly, the state of the mortgage market. Look at the current interest rates, they have never been so low and deliberate the experts' opinions and just as equally your own opinions as to whether Bristol property values are on the rise, will stay the same or are likely to fall.

Interest rates are at record lows, meaning borrowing money is cheap money now, so it may be a good time to buy, as you will pay a reduced cost for the pleasure of borrowing money to buy that investment. Yet, if you waited and Bristol property values are on the decline, it may be a good idea to wait, as you could end up getting a better deal on the same type of home, yet if that happens, access to the cheap finance might dry up (meaning you could save some of the purchase price, but the cost of borrowing could go up). It can be very hard to accurately predict what interest rates or property values will do, so these shouldn't be deciding factors - but they are worth considering.

So, what will happen to the Bristol (and UK) property market?

To be honest – nobody knows. What I do know is the Swine Flu in 2009 caused some volatility in the UK property market, but the market stabilised within months. Even in disaster scenarios such as the current one, property remains comparatively stable and will continue to be one of the best places to invest in.

Yes, we could see unemployment rise in the next 6 months (yet the Furlough Scheme has been extended until the autumn) and historically, it has been proved house price falls are not caused by high unemployment; yes GDP will drop drastically because of lockdown yet it could bounce back like it has in China; yes, the number of property transactions will drop, yet that will only really effect the pockets of Bristol removal people, Bristol solicitors & estate agents and the Chancellor of the Exchequer in lost stamp duty receipts; yes there is £82bn worth of property sales on ice during this lockdown (some of which might not complete) .. it's all ifs, buts and maybes.

Calamity changes things: with every predicament, humanity shifts to become more productive – it's the way it's always been

The national debt at the end of the Napoleonic Wars of 1815 in today's money was an eye watering £4,421,000,000,000 (£4.42 trillion) and today even with the eye watering borrowing to fund Covid-19, it stands at £1,821.3 trillion – we have been here before and we came out stronger.

The Bank of England failed in 1825, yet we recovered stronger; the Great Depression of the 1930's cut the Stock Market by 90%, yet we recovered; WW2 took national debt to 200% of GDP like it had in the Napoleonic Wars in the early 1800's – yet we recovered; the oil crisis quadrupled oil prices in the 1970's – and we came back The list goes on with Hyper-inflation in the 1970s of 25%, mass unemployment in the 1980's, Black Monday in 1987, Dot-com bubble in 2001 and the credit crunch in 2008/9.

With every economic crisis, the long-term effects of them make people look at their decision making differently.

The simple fact is for decades, demand for homes has outstripped supply – hence why property values have remained so robust. People are living longer (71.1 years in 1960 and 81.1 years nowadays), the mass exodus of EU nationals has not taken place since Brexit and the birth rate has increased by 9.1% since the Millennium which means since 2000, the country has needed at least 240,000 households per year to satisfy the demand. On average, we have only built 150,000 households a year, meaning we have a shortfall of 90,000 households each year for 20 years .. a true shortfall of 1.8m households .. and until we start building anything over that 240,000 requirement ... demand will always outstrip supply – and we all know what happens to prices when that happens!



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