RESIDENTIAL
MARKET REPORT

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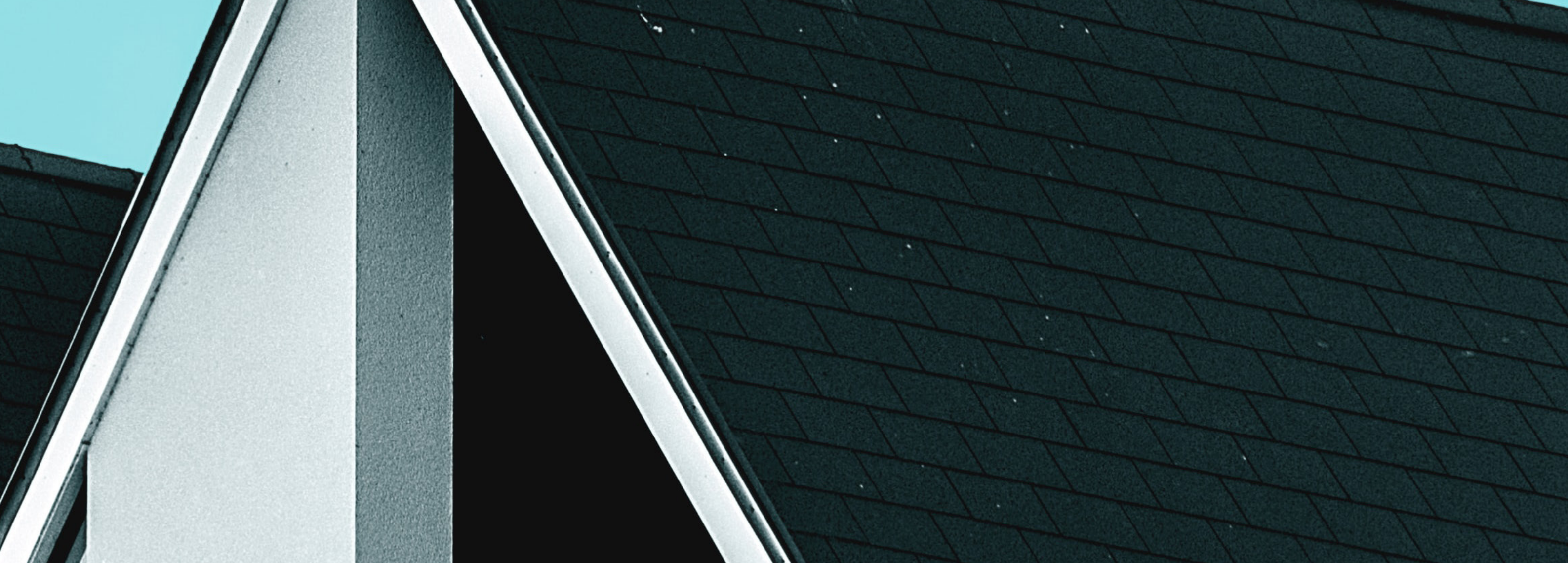
‘GENERATION RENT’ TO BECOME ‘GENERATION BUY’

Boris Johnson has attracted both praise and horror in equal measure with a new plan for 95% mortgages to help beleaguered first time buyers to get on the property ladder, but would that expose UK taxpayers to too much risk?

In this article I discuss the implications of what that would mean both nationally and locally in Bristol.

With the Bristol property market taking off due to the stamp duty holiday introduced in the summer, Boris Johnson announced at the recent Tory Conference a plan to offer first time buyers long-term low interest rate **95% mortgages (meaning they would only need to raise a 5% deposit).** Yet when someone borrows **more than 75%**, the banks normally take out insurance in case the buyer defaults and the bank lose money if the property gets repossessed.

When the economy is good, the risk is low – so the insurance premiums are also low for the banks – meaning they are happy to lend high percentage loans. Yet, nobody could deny we are entering a period of uncertainty in the coming **12/18 months,** meaning the insurance premiums for the banks have gone through the roof.



Mortgage companies have avoided riskier high percentage first time buyer mortgages since the start of the Coronavirus predicament. At the end of February 2020, there were just under **400 95% loan-to-value mortgage** products accessible for first time buyers, yet today that figure stands at just **26.**

Another reason for removing the number of **95% mortgages** was that the demand for lower percentage loans exploded after lockdown was lifted, and with many mortgage staff still working from home, the banks and building societies focused their attention on getting those (less risky) mortgages sorted first. Therefore, they removed the higher percentage loans from their books, so they weren't swamped with too much work … so, one must ask, should the Government take on that risk from mortgage providers in the form of a guarantee from the Government – sparking concern among economists the Government is already burdened with debt – does it need anymore?

Yet taxpayers have been funding a similar scheme for years. The Help to Buy scheme, which allows first time buyers to buy a home with a **5% deposit** (and the Government guaranteeing between **20% to 40% of the loan**) has been in operation since 2013. Taxpayers are already guaranteeing **£16.049bn** of loans for **224,133 first time buyers**, and when we look closer to home locally, **since 2013…**

1,343 first time buyers in Bristol have used the Help to Buy scheme to help buy their home, relying on the Government to guarantee them on average £49,564

That means in Bristol alone, **£66,564,452** is at risk if those Bristol homeowners' default on those pre-existing Help to Buy Loans … yet the default rate is quite low.

So, should the Prime Minister be playing with the housing market? Ought he instead allow open market forces to be applied to the property market, allowing it to find its own normal and leave the mortgage providers to decide on mortgages based on risk, because all the Prime Minister will potentially achieve is a synthetic rise in property values?

Some in fact have argued it would be better to spend that public money on delivering affordable rental properties?

However, in the long run, isn't it better for the country as a whole that British people own their home rather than rent because the Government will have rent to pay for those tenants when they retire if they are on the basic (low) state pension?

Personally, I don't disagree with the initiative, yet all I am querying is, what are the Bristol first time buyers going to be able to buy? The Bristol property market is already quite drawn-out, as ultra-low interest rates have augmented the gap between the first home and the second home, the second home to the third and so on and so forth, so is this initiative fashioning a massive demand that will inflate property prices up the Bristol property ladder still further and ultimately lead to even more frustration down the line?

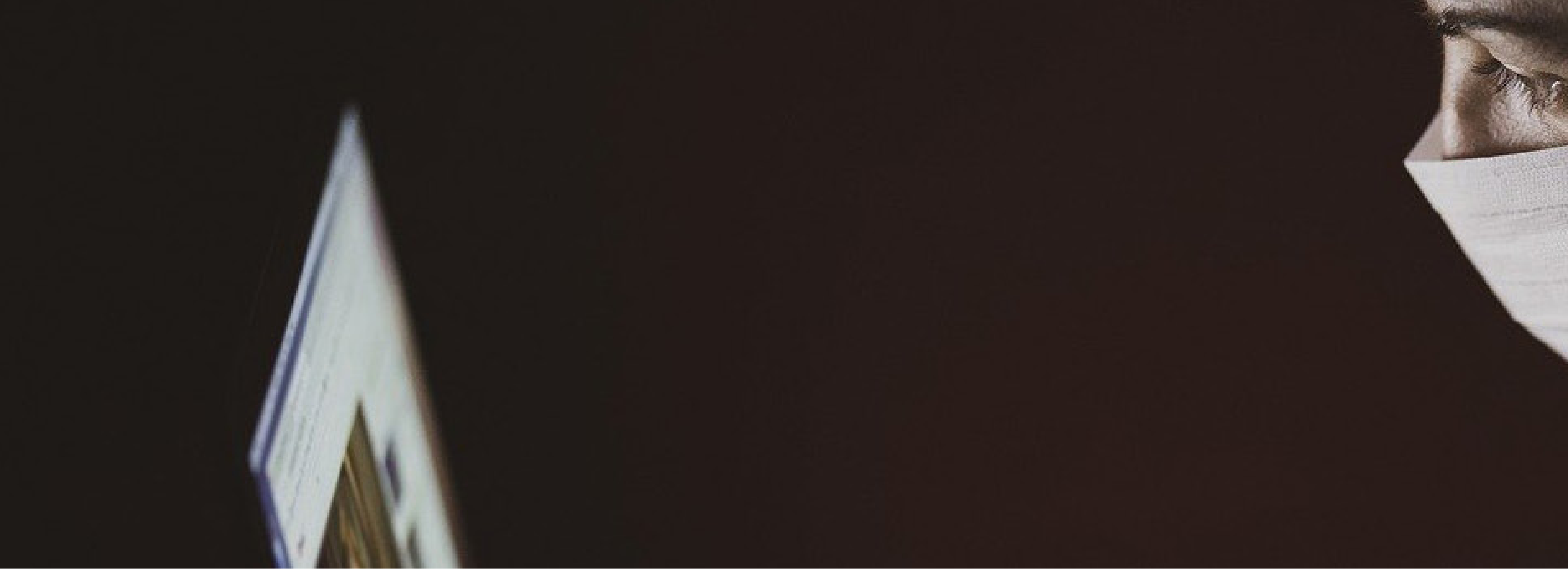
However, could this be the very thing that saves the Bristol property market in 2021?

Firstly, with the stamp duty holiday due to finish by the end of March, there are suspicions the property market will stall. And secondly, the very popular Help to Buy scheme mentioned above also finishes at the end of March 2021. This boost instead of fuelling house price inflation could stabilise the property market.

In fact, the Government are hoping the property market will help power us out of recession. The early signs are good as the Bristol housing market has exploded as a result of the stamp duty holiday introduced in the summer. It certainly needs to as the country's **GDP only grew by 2.1% in August, down from 6.4% in July, 9.1% in June and 2.7% in May.**

As a country, our GDP is still **9.2% below the levels seen pre-Covid**. With the property market doing well, the country remains on course to leave recession in Q3, yet with the impending triple peril of rising unemployment (after furlough), further lockdown restrictions and a messy end to the Brexit transition period does this mean we are potentially in for an interesting ride?

Only time will tell if '**Generation Buy'** will help save the property market, the economy and ultimately Boris? In the meantime, I think it will be a safe bet that people still need homes to live in … and irrespective of what happens to the property market, with that simple fact, the winners in all of this will be Bristol buy to let landlords.



BRISTOL HOUSE PRICES 2021:

WHAT WILL HAPPEN TO THE VALUE OF YOUR BRISTOL HOME NEXT YEAR?

What will a no deal Brexit on the horizon, the end of the stamp duty holiday in March, mortgage payment holidays coming to an end, unemployment set to rise after furlough and ongoing on/off coronavirus restrictions do to the Bristol property market and the value of your Bristol home?

In the late spring of 2020, every man and his dog were forecasting impending doom on the British property market. Drops of 10% were considered optimistic as we all held our breath after lockdown was relaxed. Yet, the property market didn't listen to the forecasters. UK property values today are 2.5% higher than they were a year ago, and more locally,

Bristol house prices are 6.2% higher than a year ago.

So, what exactly is going to happen to the Bristol property market in 2021? Well, with the end of furlough and 1.7m people still on the furlough scheme at the start of October, a number of economists are saying that unfortunately many of those furloughed will become unemployed. Unemployment currently stands at 4.5% in Q3 2020 (compared to 3.8% in Q3 2019). The Government's independent Office for Budget Responsibility believes the unemployment rate will peak at 9.7% in early 2021, and then return to pre-coronavirus levels in 2022. In the past recessions of the early 1980's, early 1990's and Credit Crunch of 2009, when unemployment went up, the property market went down.

Yet, in this recession, the link between unemployment and property values may not be so direct.

So why is the link between unemployment and house prices potentially broken? It comes down to interest rates.

The reason Bristol house prices have gone up by **572.56%** since the middle of the **1990's** isn't because the labour market has got so much sturdier, nor that the economy has outperformed every G8 country, or that the UK has had less boom and bust economic cycles than the previous decades. Instead, it's because of the fundamental and underlying decline in the Bank of England (BoE) interest rates.

High BoE interest rates equal high mortgage payments which holds everything back regarding the property market. In the **1980's,** the average BoE interest rate was just over **11%**, making mortgage payments very expensive and keeping property prices dampened. In the **1990's**, the average BoE interest rate was a little over **6%,** in the **2000's just over 4%**. However, in the 2010's, it had been a really low 0.5%. Now with **interest rates down to 0.1%** because of coronavirus and the BoE threatening negative interest rates, there appears little threat of an eruption in mortgage repayment costs.

With mortgage payments at an all-time low of just under **30% homeowners'** disposable income **(compared to 48% in 2007)**, those middle-aged people lucky enough to still be in a job (who are mainly made up of workers whom are spending a lot more time working from home), they could be more inclined to dedicate more of their monthly income to mortgage payments than they did pre-coronavirus for a bigger garden or a move out of the big cities?

So, if unemployment isn't going to make a huge difference to the Bristol property market, what is?

Most commentators believe a no deal Brexit will have hardly any short-term effect on the property market (apart from certain upmarket parts of central London).

The stamp duty holiday ends at the end of **March 2021** and that certainly will reduce the number of Bristol people moving (as many moved their plans forward to beat the deadline) meaning there will be less Bristol people moving in 2021, yet that will curtail the supply of property for sale and hence keep Bristol property prices higher.

Next, the Help to Buy scheme **(started in 2013 and where the Government underwrites part of the mortgage for the first time buyer, meaning they can obtain a 95% mortgage)** ends in April next year, yet the Tories indicated at their conference last month they would probably create **'Help to Buy – Part 2'.**

The bottom line is in the early **1980's and 1990's recessions, when interest rates were over 15%,** obviously homeowners couldn't afford to keep up the mortgage payments when made redundant or on lower wages, so many handed in their keys to the banks and got their homes repossessed, thus exacerbating the issue with falling property values.

However, with interest rates so low, this will not be the case. I envisage that UK property prices will be between **4% to 5%** higher by December and Bristol values just behind that at **2% to 3% higher,** before levelling out in 2021 (although we might see a modest dip in certain sectors and types of Bristol homes depending on location and condition).

My advice to Bristol buy to let landlords is to wait on the subs bench until April 2021. Something tells me there will be some Bristol landlords who will be looking to exit the rental market after having their fingers burnt after the eviction ban has been lifted.

I also suspect those Bristol first time buyers, eager (and able) to break free the rental-rat-race will want to take up the anticipated **'Help to Buy – Part 2'** scheme, particularly if the BoE base rate stays low. The other winners in 2021 will be low mortgage/equity rich households upsizing to the countryside or leafy suburbs to test out their boss's promise of 'flexible-working'.

Yet the losers will be the **18yo to 29yo renters** ... most likely to be made redundant and least likely to buy a home.

My advice to the Government for this cohort is to not ignore them once the country is out of this coronavirus situation. It's all very good keeping the Home Counties Tory voting Baby Boomers happy with green belt policies and other policies to keep their property values higher, yet as the Generation X and Millennials get older and take over as the largest demographic to keep happy (for the polls), the hitherto inconceivable action of the Government levying Capital Gains Tax on your main home may come to fruition.

I mean, we have **£400bn** to pay back because of coronavirus … it has to be repaid and it has to come from somewhere. Those denied real access to buying their own home in the last **10 years**, because of massive house price gains over the last **25 years**, could vent their anger via the ballot box — if not at the **2024 General Election, maybe in 2029**, when they realise that the futile housing policies of both Labour and Tories of the last **23 years have left them with enduring financial diffidence.**

Maybe we should all look to the grocer's daughter from Lincolnshire who in **1979** set out a bold vision of home ownership for everybody. Whichever political party truly picks up the batten and reframes it for the current **2020's generation** and comes up with the goods, will be the ultimate winner in this game.

WHY ARE SOME BANKS REINING IN OVER-ENTHUSIASTIC BRISTOL **HOMEBUYERS AND BUY TO LET INVESTORS?**

The Bristol property market is an enigma and chock-full of contradictions.

Notwithstanding an economic recession and forecasts of property values dropping, nobody seems to have informed the Bristol homeowners selling their homes and those Bristol people looking to buy them. As I have discussed in many recent articles on the locality, the Bristol property market is booming and property values in some sections of the market are rising, yet amidst enthusiastic reports of gazumping, there are disgruntled and malcontent grumbles about mortgage company surveyors down valuing property on survey.

However, before we talk about the banks and surveyors, let's look at what is happening in the Bristol property market now. Land Registry figures published last week showed unyielding evidence for what everyone in the property industry had been saying since the market reopened after a seven-week lockdown on May 13: property prices are rising.

The average value of a Bristol home rose by 4.5% in the year to June to £337,200

Many expect the statistics to show more rises following the Stamp Duty Holiday announced in July, which unbridled a burst of buying activity in the Bristol property market. In many (not all) sectors some properties have been going for over the asking price whilst some have been going to sealed bids.

Some newspapers have even suggested a small minority of homeowners are 'backdoor-gazumping', which is genteelly being referred to by estate agents as 'retuning the asking price' — as in, the homeowner removing the property from the market, 'retuning the asking price' in an upward direction, then placing it back onto the market.

Conceivably enthused by these stories, some house sellers and estate agents might be getting a little carried away and placing overambitious asking prices on homes they are selling. Customarily a property with too high an asking price wouldn't sell — yet some over-enthusiastic Bristol buyers are paying over the odds for certain types of properties.

So, let's look at what is happening to the Bristol property market (Bristol plus 1 mile) by house type and the number of bedrooms ...

	Number of Bristol properties on the market	..and of those – how many are Sold STC	% Sold STC compared to those for sale
Detached House	1,631	1,006	61.7%
Semi Det House	2,299	1,569	68.2%
Terraced/ Town House	3,442	2,321	67.4%
Apartment	2,910	1,519	52.2%
Bungalows	442	263	59.5%

And when we look at the number of bedrooms ..

	Number of Bristol properties on the market	..and of those – how many are Sold STC	% Sold STC compared to those for sale
Studio/1 bed	1,087	558	51.3%
2 beds	3,172	1,910	60.2%
3 beds	4,237	2,807	66.2%
4 beds	1,774	1,124	63.4%
5+ beds	604	361	59.8%

As you can see, the best performing type of property in Bristol is the semi-detached house and the best-selling properties when it comes to bedrooms are 3 beds.

These are quite impressive figures for the Bristol property market, yet some of the banks are having none of it

They are looking apprehensively into 2021 when furlough/the new job support scheme ends, meaning it's quite tough for all buyers borrowing high percentage mortgages (i.e. more than **80% to 85%** of the value of the property in a mortgage).

It is even tougher for self-employed buyers (whose income is less than assured) to get those high percentage mortgages — and finally, the banks are most certainly concerned with high percentage mortgage buyers who pay over-inflated prices for property using the bank's money... hence the down valuing (Definition of Down valuing : the buyer and seller agree a sale price, then the mortgage is applied for with the buyer's bank and the bank's surveyor states the purchase price the buyer is paying is too much).

One small note to Bristol landlords: I am also hearing that some overzealous Bristol buy to let landlords who are over-egging the potential rental figures on their buy to let purchase in order to obtain the mortgage, are also being reined in by the banks.

Now this is not a huge issue (e.Surv – a nationwide surveying firm only reported a 4% increase in surveyors having to down value property in Q2 2020 compared to Q1), yet should you be lucky enough to have multiple offers on your home, ask the agent what the overall buying position of the buyers are. You need to specifically ask what percentage loan the buyer is taking on and the position of the buyer in the chain (they have to find this out anyway by law and you have a right to know that information as the property seller if you ask).

The bottom line is the highest bidder might not be the best buyer for you. It's true, average property prices are rising nationally, yet this does not mean you should pay over the odds for your next Bristol property.

"Sold our property with one viewing. Referred a friend and NEXA sold there's within 24 hours over asking price! I have dealt with many Estate Agents over the years and I can, without doubt, say that NEXA are the best!"

"Absolutely great service and advice, very pleased with the result."

"The Team at Nexa Bristol are an absolute pleasure to work with. Their holistic approach and swift response to any issue turn the headache of being an overseas landlord into a hassle and stress free process."

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