



RESIDENTIAL MARKET REPORT

Portsmouth Research
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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 Portsmouth.

With the Portsmouth 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...

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 Portsmouth first time buyers going to be able to buy? The Portsmouth 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 Portsmouth property ladder still further and ultimately lead to even more frustration down the line?

However, could this be the very thing that saves the Portsmouth 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.



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 Portsmouth buy to let landlords.

In fact, the Government are hoping the property market will help power us out of recession. The early signs are good as the Portsmouth 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.



PORTSMOUTH HOMEBUYERS HAVE SAVED **£83,640 THANKS TO THE STAMP DUTY HOLIDAY** YET MANY COULD MISS OUT

My analysis of properties sold in Portsmouth from the Land Registry between the introduction of the **Stamp Duty holiday on 8th July 2020 and 14th August 2020** (which is the most up to date sales data), reveals that many Portsmouth homeowners have saved a considerable amount of money in Stamp Duty. According to my research...

**since the stamp duty holiday was launched,
42 Portsmouth homeowners have
saved on average £1,992 each.**

That's a total Portsmouth property value of **£9,432,250**.

Mind you, it's not all good news as I estimate 92 Portsmouth homebuyers risk missing out on the stamp duty savings (**worth as much as £15,000 each**) due to solicitors/conveyancers and mortgage lenders struggling with demand and failing to hit the **31st March 2021 deadline**.

The short-term tax relief, together with the easing of lockdown restrictions, has seen demand for Portsmouth property soar this summer as Portsmouth property buyers race to move home.



Chancellor Rishi Sunak introduced a stamp duty holiday in the summer, with the stamp duty holiday due to end on 31st March 2021. Yet, I fear the combined pent-up demand caused by...

- **The post Boris Bounce**
- **People wanting to leave their metropolitan city centres for homes in the countryside**
- **Property with gardens**
- **Property with extra rooms for working from home**
- **The stamp duty savings**

...has created a certain amount of constipation and backlog in the Portsmouth property market.

I know 31st March 2021 seems an age away, however nothing could be further from the truth. The average Portsmouth property sale was taking 19 weeks between the offer price being agreed and the keys/monies handed over BEFORE THE POST-LOCKDOWN. So, with as many as **40% to 50% more Portsmouth homeowners** in that same sales pipeline of agreeing the offer and the legal and finance to be sorted as we speak, solicitors/conveyancers and mortgage lenders are really struggling with demand for their services, meaning the average time will increase. Hence, I believe as many as...

92 Portsmouth people could miss out on the £183,220 stamp duty tax savings.



There is time left to sell and legally complete your Portsmouth property sale before the 31st March stamp duty deadline if you put the property on the market now with a realistic asking price, a decent marketing plan and razor sharp reflexes when it comes to the legal and mortgage work.

Yet with **40% to 50%** more home movers in the system, those looking to sell their Portsmouth home should be very suspicious of agents being too optimistic on their initial asking price (many estate agents get a commission to put a property on the market, meaning they over-egg the pudding on the suggested asking price to flatter you, only to badger you to reduce the asking price weeks later).

Those wasted weeks at an inflated asking price will mean the difference between you securing a buyer and you then buying your next Portsmouth home with or without the Stamp Duty savings, which are up to **£15,000** per home move.

And whilst many Portsmouth buyers seem ready, willing and able to pay top dollar prices for Portsmouth properties that match their changed post-lockdown home needs, speaking privately to many Portsmouth agents, some Portsmouth homeowners' price expectations for their Portsmouth homes are now becoming too optimistic, meaning they will undoubtedly lose out.

We also can't forget as many as **1 in 5 mortgage surveys are being down valued by the surveyor**, meaning unless all parties are willing to negotiate, the sale falls through and the homeowner has to go back to 'Square One'.

My best piece of advice for those currently sold and in the sales systems with lawyers and mortgage brokers is to speak to your solicitor and mortgage broker every single week and ask if there is anything you need to do to ensure the sale proceeds smoothly and expediently. Also, if you are asked for any information from your solicitor or mortgage broker in between times, drop everything and respond quickly to their request. The odd day here and there will make all the difference.

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

The Portsmouth 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 Portsmouth homeowners selling their homes and those Portsmouth people looking to buy them. As I have discussed in many recent articles on the locality, the Portsmouth 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 Portsmouth 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.

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 Portsmouth 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 Portsmouth buyers are paying over the odds for certain types of properties.

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 Portsmouth landlords: I am also hearing that some overzealous Portsmouth 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 Portsmouth property.



PORTSMOUTH **2ND & 3RD TIME**
BUYERS FINDING IT TOUGHER
(AND SLOWER) TO MOVE UP THE
PORTSMOUTH **PROPERTY LADDER**

Post lockdown, the need for Portsmouth families who want bigger homes has meant **Portsmouth homebuyers must now pay considerably more to trade up to that larger home...**

One thing that has come out of lockdown has been the inexorable movement of Portsmouth households wanting to upsize to a larger home. Often considered to be first time buyer properties, the smaller 1st step on the property ladder one and two bedroom properties are selling quite well, yet demand for those properties on the **2nd and 3rd** step rungs on the Portsmouth property ladder (i.e. the three or four bedroom homes) has been even greater.



This demand has been driven by Portsmouth buyers looking for more living space, especially those looking for an area or room to work from home (be that a bedroom, reception room or even an outbuilding converted into a study).

The average asking price of a 3 bed Portsmouth home is £276,400, whilst for a 4 bed Portsmouth home it stands at £448,700

As you can see, quite a jump for an extra bedroom! The heightened contest for **2nd and 3rd step Portsmouth homes** for that extra bedroom has pushed demand to a record in October for those looking to take the next step up the ladder. Historically, as a family and its household income grow, the need for more space has permanently been the No.1 reason for moving home, yet now there is a new need for additional space to facilitate people working from home. This means not only do we have growing families wanting larger Portsmouth homes, there are also the people needing the same larger homes for space for a home office. Therefore, looking at the current stats, as you can see, the Portsmouth property market is doing quite well...

62.0% of all 3 bed and 57.2% of all 4 bed homes in Portsmouth are sold (subject to contract)



Roll the clock back to pre-Covid and ask any Portsmouth homeowner who had enough bedrooms for their children if they wanted an additional bedroom, and most homeowners would say that was very much a 'nice to have', yet not a 'must have'. With us all being cooped-up over the spring this year, demand for additional rooms is at a high, with those presently looking for their next larger Portsmouth home are probably going to find that only offers close to (if not sometimes over) the asking price will be accepted.

Even though **no properties sold during lockdown**, putting the Portsmouth (and UK) property market on hold for many months, many more people buying their next Portsmouth home will have more than made up for it since lockdown was lifted as the portals have stated if the UK property market remains at its existing trajectory, then the number of properties sold YTD by the end of **October 2020** will be greater than YTD **October 2019**.

Yet all these properties sold are causing another issue. Just because a property becomes Sold Subject to Contract (SSTC) doesn't mean the property is actually "sold". Before going into Covid, it was taking approximately 19 weeks between agreeing a sale price (and instructing lawyers) to completing the sale. Yet, because we are nationally running at **140% to 150%** of properties SSTC (than where we normally are at this time of year), many of my estate agents colleagues are having to manage expectations with buyers and sellers, and tell them that the date they are going to move will take a little longer.

The elephant in the room is that the temporary stamp duty holiday ends on the 31st March 2021



It sounds an age away, yet trust me, nothing could be further from the truth. Adding an extra month for the additional homes in the bottleneck means even if the sale of your Portsmouth home was agreed today, that would take us to the **3rd week in March** ... that's cutting it very close for the stamp duty holiday.

It is so fundamental for buyers and sellers of Portsmouth homes to work meticulously with their estate agent, solicitor and mortgage lender. For example, there are less staff in the local authorities to do the local searches, bank staff are working from home meaning mortgages are taking much longer to get approved, and conveyancer/solicitors are snowed under with work. Therefore, if you get a document that needs filling in, are asked to provide documents, pay disbursements or questions need answering, do it immediately and without delay. A day here and day there will snowball and could mean you miss the stamp Duty holiday ... and that could cost you thousands and thousands of pounds.

The bottom line is that we haven't seen this sort of pressure on the UK property market since **1987**, when dual-MIRAS was abolished. Now, as we are slowly starting to come out of Covid, with many legal and banking staff working remotely or still on furlough, the perfect storm has occurred with unprecedented demand from buyers looking to move post lockdown. The best advice I can give is, as soon as you put your property onto the market, find a solicitor that has the capacity to work with you, then instruct that solicitor to start work immediately to prepare the paperwork, so once you have a buyer, things can move more smoothly and quickly.

The last thing you want is to lose out on saving thousands of pounds by missing the stamp duty holiday by a whisker.



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