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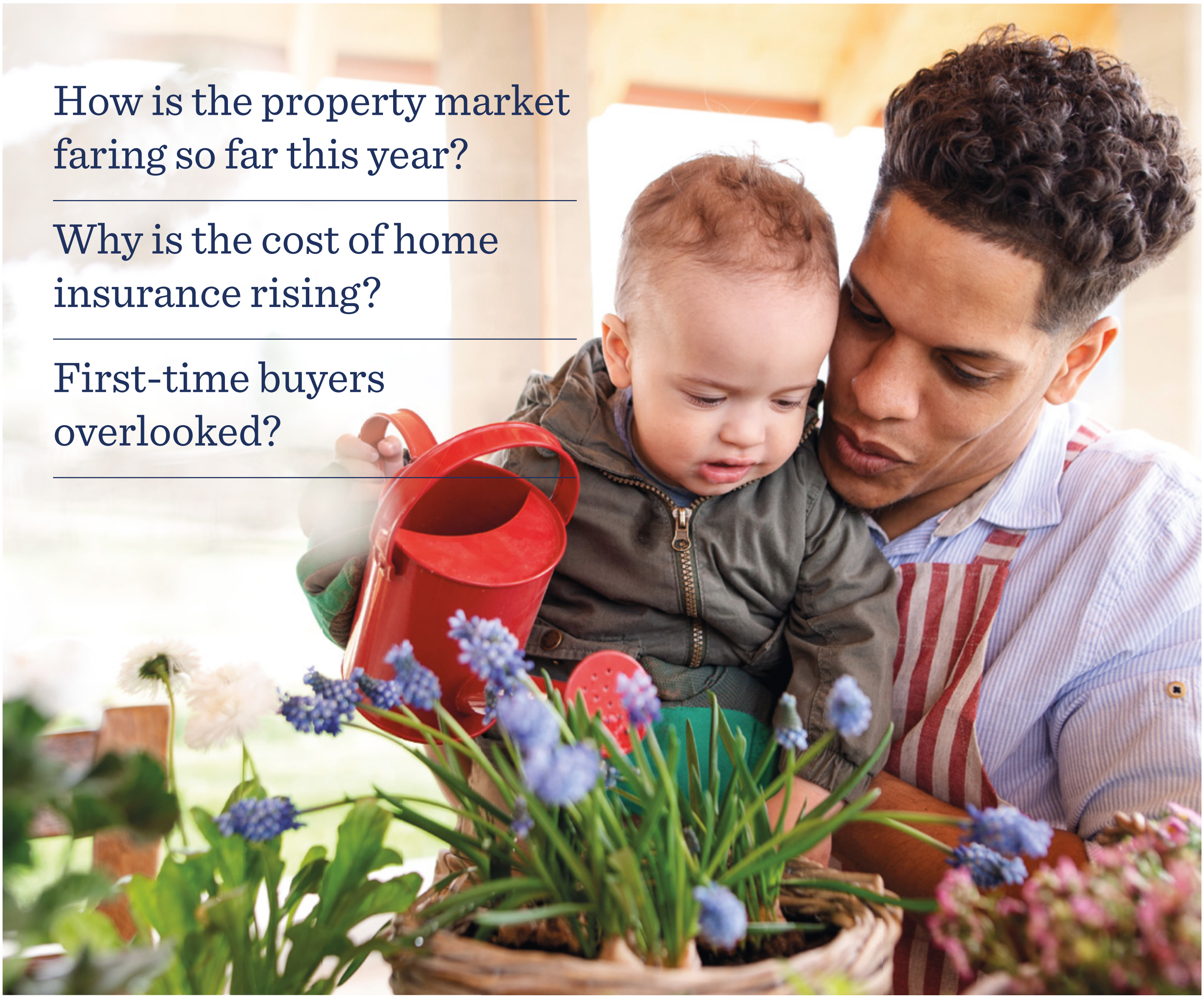
Essentially Mortgages



Q2 2024

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Mortgage market update

2023 was a difficult year for the UK mortgage market, with rising interest rates posing affordability challenges for many borrowers. However, there are signs that the market is stabilising, which is promising for buyers and sellers alike.

Mortgage approvals on the up

In January 2024, the number of mortgage approvals increased for the fourth time since June 2023[1]. There was a total of 55,227 successful mortgage applications for house purchases – 7.2% month-on-month and 40.2% year-on-year.

More borrowing and repayments

Individuals also repaid £1.1bn in mortgage debt, up from £0.9bn in December 2023. Meanwhile, between December 2023 – January 2024, net borrowing of consumer credit by individuals increased from £1.3bn to £1.9bn.

More homeowners with longer mortgage terms

Although the market may now be recovering, many mortgage holders will be feeling the effects of the recent volatility for years to come. Data has found that, in 2023, 58% of people who took out a mortgage opted for a term of 25 years or more[2]. This is likely due to the cost-of-living crisis putting a strain on many homeowners, so they needed to make their mortgage more affordable by spreading the cost over a longer period.

What's in store for the mortgage market?

With mortgage rates so dependent on the rate of inflation, it's difficult to predict precisely what's next. However, many experts are confident that things will improve in the long run. In its latest Mortgage Market Forecast for 2024/5, UK Finance advised that, *'Whilst it will take some time for the pressure on household finances to recede, we expect things to begin to look up in 2025. Meanwhile, prudent lending standards and extensive lender forbearance will minimise the number of customers who struggle with their mortgage payments through this period.'*

[1]Bank of England, 2024, [2]Mojo, 2024

How is the property market faring so far this year?

If the first two months of the year are anything to go by, 2024 should overall be a more stable year for the property market.

House prices picking up

In February, house prices rose 1.2% year-on-year to £260,420[3], after taking seasonal effects into accounts. This marks the first annual increase since January 2023, which is likely due to improved mortgage affordability giving a boost to buyer confidence. Whilst this uptick is positive, prices were still 3% lower than the record highs we saw in the summer of 2022.

Buyers and sellers returning

Seller and buyer activity is also on the rise – at the start of 2024 7% more properties came onto the market than last year, and buyer enquiries increased by the same amount[4]. As a result of this elevated activity, there was a 16% increase in the number of agreed sales, when compared with the same period in 2023. Zoopla estimates that, by the end of 2024, the total number of transactions will be up 10% year-on-year.

Cautiously optimistic

It's safe to say that, while there are signs of improvement, it will be a long road to recovery for the UK. Despite buyers returning to the property market, they are still moving tentatively – at the start of the year it took two weeks longer for homes to find a buyer than in 2023. Robert Gardner, the Chief Economist at Nationwide, reflected, *"While the squeeze on household budgets is easing, with wage growth now outstripping inflation by a healthy margin, it will take time to make up for the ground lost over the past few years, especially given consumer confidence remains fragile."*

Here to help

We can help you navigate the changing property market with confidence. If you're thinking of buying or selling this year, get in touch today.

[3]Nationwide, 2024, [4]Rightmove, 2024

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Why is the cost of home insurance rising?

Homeowners and insurers alike are feeling the impact of the winter storms, as the average home insurance premium increased by 4% in the final quarter of 2023[5].

A stormy winter

The last three months of the year saw six storms officially recorded by the Met Office, with the first three alone causing 36,000 home insurance claims to be made. As a result of Storms Babet, Ciaran and Debi, £352m was paid out by insurers. The average premium for combined building and contents insurance therefore went up by 4% to £364.

Higher cost of rebuilding

Storms are not the only factor affecting the price of cover – labour costs and raw materials are also becoming increasingly expensive. Compiled by the Building Cost Information Service, the House Rebuilding Cost Index (HRCI), which measures changes in the price of rebuilding costs, shows that in the two years to January 2024 the Index increased by 21%.

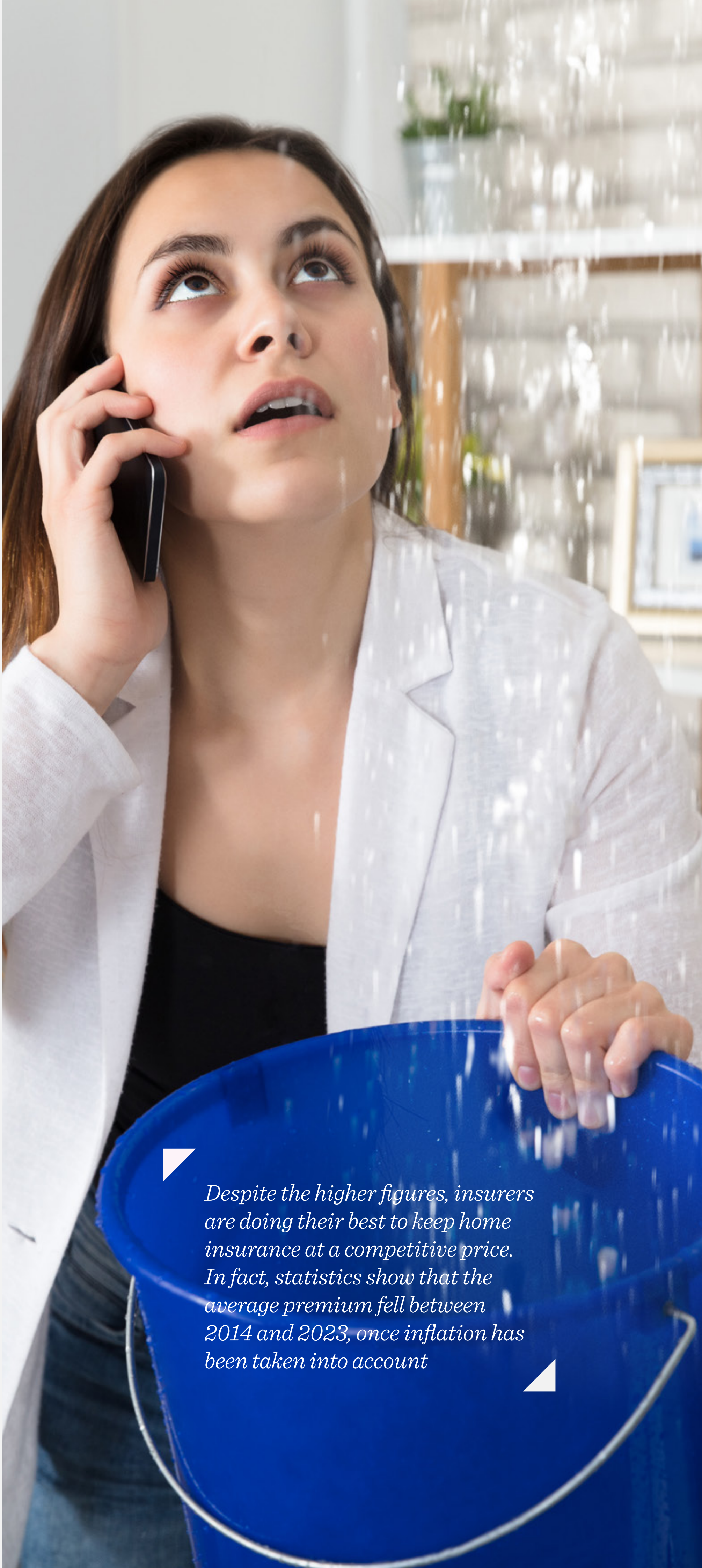
Cover still competitively priced

Despite the higher figures, insurers are doing their best to keep home insurance at a competitive price. In fact, statistics show that the average premium fell between 2014 and 2023, once inflation has been taken into account.

ABI call for preventative measures

As we look to the future, property damage due to extreme weather is unfortunately going to be more common due to climate change. Louise Clark, ABI's Policy Adviser, has said more action needs to be taken to protect homes. She commented, *"Flooding caused by extreme weather is devastating when it strikes people's homes. That's why it is vital more is done to increase investment in flood risk management that better protects communities which are at risk, alongside a zero-tolerance approach to building properties in areas of high flood risk."*

[5]ABI, 2024



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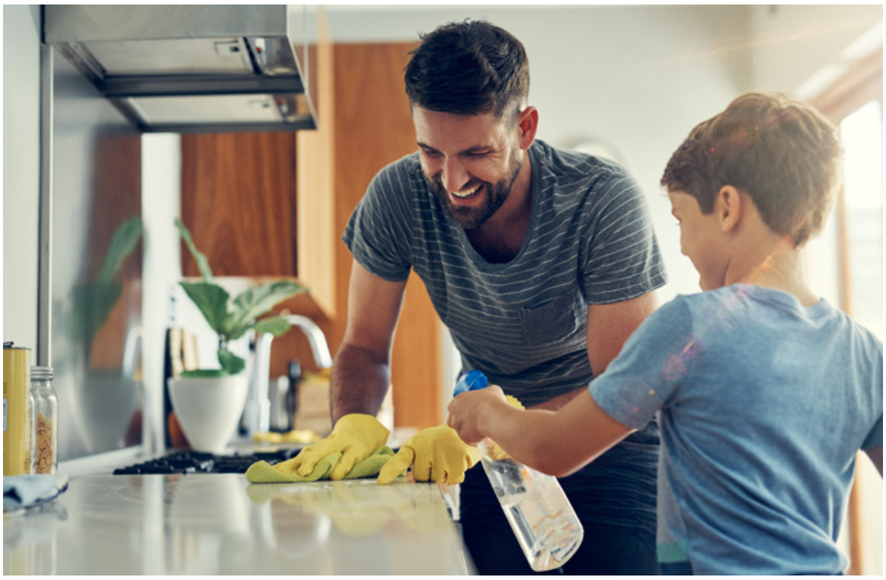
Home valuation requests hit a record high at the start of the year

Was your new year's resolution to move home in 2024? That seems to be the case for many homeowners in the UK, as there were a record number of requests for in-person property valuations in January[6].

What is a home valuation?

One of the first steps a homeowner will take towards putting their house on the market is getting a valuation. An expert will assess the value of a property by considering a range of factors, including the home's condition, location, layout, and the need for refurbishment. Based on this, the expert will estimate how much an average buyer would be willing to pay.



Why is it important?

Those who have bought or sold in the last year will know all too well that property prices can fluctuate. It is therefore important to get an up-to-date valuation to ascertain the current value of your home – not what it was worth three years ago. In doing so, some homeowners might learn that their house is worth more than they thought, encouraging them to go ahead and sell up. On the other hand, prospective sellers could realise they have some work to do to get their home to the asking price they hoped for.

Is this the year to sell?

The steadier mortgage market has clearly been encouraging for sellers, as estate agents received 23% more home valuation requests in January 2024 than in 2023. Tim Bannister, Rightmove Property Expert, explained that the increase in activity is *"likely to be a combination of home-movers who have recently decided to make this the year to find a new home, and potential home-buyers who took a step back last year and paused their plans while the outlook for mortgage rates was more unclear."*

[6]Rightmove, 2024

UK landlords plan to grow their portfolios this year

A recent survey indicates that over a third (38%) of landlords in the UK hope to expand their property portfolios in the coming year[7].

How will landlords fund their ambitions?

When asked how they plan to finance their portfolio expansion, 40% of landlords expressed intentions to unlock capital from their existing properties. Meanwhile, 35% would not be opposed to taking out another mortgage or loan, and 25% would partner up with someone else to make their expansion plans possible.

Getting their priorities straight

The research also delved into the investment goals of landlords over the next year. The priority of nearly half (45%) of respondents is increasing the value of their properties, while 38% want to boost their rental income. A few (17%) of those surveyed would like to diversify their portfolio.

Not everyone has plans to expand

There are some landlords who intend to concentrate on the property they already own in the next twelve months, rather than buying more – 42% want to focus on renting out their current properties, while 20% hope to renovate.

[7]Lendlord, 2024

THINK CAREFULLY BEFORE SECURING OTHER DEBTS AGAINST YOUR HOME. YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON A MORTGAGE

Do you need to reassess your life insurance?

When was the last time you reviewed your life insurance policy? It might not be easy to think about what will happen when you're gone, but it is important to make sure your cover is still relevant for your current circumstances.

Life insurance is designed to provide financial support to your loved ones in the event of your death. Each policyholder therefore has a different level of cover, depending on their specific situation. So, if you bought life insurance once, don't be fooled into thinking there's nothing else to do. Life can be full of surprises and, as things inevitably change, certain events might require you to take out more cover.

Buying a property

Have you recently moved home? If you have a mortgage to pay, it's important to make sure that any dependents will be able to keep up with repayments and stay living in the property if you pass away.

Milestone events

Have you experienced a significant lifestyle change due to a major event? Perhaps you have recently got married, welcomed a child or grandchild, or started caring for an unwell relative. Each of these situations mean that there is someone new depending on you, so you might require a higher level of cover to alleviate the financial pressure on them if you are no longer around.

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Don't pay too much

Life insurance does not only need adjusting if you gain dependents or take on an additional financial commitment – if you have recently separated or downsized your home, your policy will need revising in light of this.

It's good to talk

Look after your loved ones by double checking if your cover is right for you – contact us for advice.

Equity release trends

Statistics from the Equity Release Council highlight the trends seen in the market last year.

Less lending

According to the report[8], annual lending totalled £2.6bn in 2023 – significantly lower than the record-breaking £6.2bn seen in 2022. This returned the equity release market to a level of activity that was last seen between 2016-2017 (£2.1bn to £3.1bn).

Fewer new customers

The decline in lending is partly due to a drop in the number of new equity release customers. In 2023, the number of new plans agreed decreased by 47% year-on-year to 26,119. Those that did enter the market were also borrowing less – the average new lump sum customer reduced their loan size by 26%, making last year the first time since 2019 that this kind of borrowing was below £100,000.

Preferences changing

In 2022, lump sum lifetime mortgages made up 52% of new product sales. This trend was reversed last year, with 53% opting for the flexibility of a drawdown lifetime mortgage.

Expert opinion

Chair of the Equity Release Council, David Burrowes, commented, *"Every corner of the mortgage market saw rising interest rates put the brakes on activity in 2023, and equity release was no exception with customers and their advisers taking a cautious approach. This resulted in loan sizes shrinking and fewer people borrowing for more aspirational reasons."*

[8]ERC, 2024

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Equity Release and Lifetime Mortgages will reduce the value of your estate and can affect your eligibility for means tested benefits

First-time buyers overlooked?

The Spring Budget came as a disappointment for anyone looking to get a foot on the housing ladder.

There was a distinct lack of announcements concerning Lifetime ISAs (contrary to expectations), no replacement for Help to Buy and no changes to Stamp Duty thresholds, a disappointment for many.

Just days ahead of the key fiscal event, the Chancellor had already scrapped plans for 99% loan-to-value (LTV) mortgages for first-time buyers following resistance from the banking community.

The scheme would have seen home buyers able to put down a 1% deposit on a new first home, with the government backing the overall loan, but bankers warned it would push up defaults.

Silence – not golden

Reaction from industry professionals was largely negative, with Tim Bannister from Rightmove commenting, *"We had hoped the government would seize the opportunity to help first-time buyers and reform the outdated Stamp Duty system today. Instead, home-movers were left with extremely little and the temporary Stamp Duty thresholds weren't even made permanent, meaning more will pay higher rates of Stamp Duty next year, unless the government makes them permanent in the autumn."*

Jonathan Stinton from Coventry Building Society said the silence around housebuilding was deafening, adding that the Budget, *"could have been an opportunity to present new innovative schemes which help buyers with affordability as well as saving for a deposit – but not even the bare minimum was done. It's not only incredibly disappointing, it feels like a big mis-step on the Chancellor's part. First-time buyers are the foundation on which the rest of the housing market stands. Failing to give them proper help is failing to help the rest of the market."*

Navigating Capital Gains Tax – need to knows

Capital Gains Tax (CGT), the levy on profits from the sale of assets such as second homes, is undergoing changes. The Spring Budget revealed reduced rates for second homes and rental properties starting in April 2024.

The higher rate of CGT has been reduced from 28% to 24% and the lower rate of CGT has been maintained at 18%. It's worth noting that CGT is not payable on your main home, only on second/holiday homes.

The threshold for CGT is shrinking too. Slashed from £12,300 to £6,000 in April 2023, it has now fallen to £3,000.

Your CGT liability hinges on the assets sold and your Income Tax bracket when profit is factored into your taxable income.

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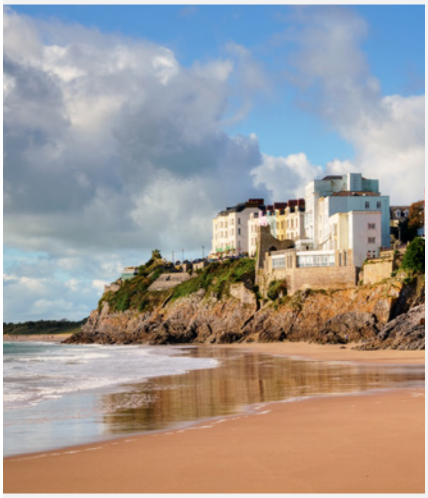
Abolition of Multiple Dwellings Relief

Elsewhere in the Budget, it was announced that Stamp Duty Land Tax (SDLT) Multiple Dwellings Relief (MDR) will be abolished from 1 June 2024, in England and Northern Ireland.

MDR reduces the SDLT cost of buying two or more dwellings in the same or a linked transaction. It will not be available for any future purchases that complete on or after 1st June 2024.

Purchasers who exchanged contracts on or before 6 March 2024 remain eligible for MDR regardless of when the transaction completes – provided that there is no variation of the exchanged contract after 6 March.

It remains to be seen whether the Welsh and Scottish Governments will follow suit in relation to similar reliefs that apply in respect of Welsh Land Transaction Tax (LTT) and Scottish Land and Buildings Transaction Tax (LBTT).



Big changes to taxation of furnished holiday lets

The Chancellor also announced the abolition of the Furnished Holiday Lettings (FHL) tax regime – the significant tax advantages over standard long-term lets have now gone.

This is because, from a taxation point of view, you are no longer running a business. From April 2025, in the eyes of HM Revenue & Customs, despite the work involved, furnished holiday lets are treated as passive investments and taxed as such. The regime is being brought into line with standard buy to lets, which themselves have suffered from tax increases recently.

The new rules will not be finalised until they appear in the Finance Act, but it looks likely they will be approved.

Tax treatment varies according to individual circumstances and is subject to change. Advice on Capital Gains Tax and Taxation Advice is not regulated by the Financial Conduct. Some buy to lets are not regulated by the Financial Conduct Authority.