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Is property poised for a post-poll recovery?

The election could present an opportunity for brave investors



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Property market jitters in the run-up to the general election could give investors who missed the trough last year a second chance to buy.

Research by London Central Portfolio (LCP), the investment consultant, based on Land Registry figures, found that property transactions dry up ahead of a general election but improve immediately after, creating an opportunity for the brave.

Figures suggest that the market is conforming to the pattern with transactions falling this year to the lowest level since February 2009, according to data from HM Revenue & Customs. Prices also fell 1.5% in February, according to Halifax, the first drop in seven months.

Experts are divided as to whether we will now get a “double dip” for the housing market or a post-election bounce.

Simon Rubinsohn at the Royal Institution of Chartered Surveyors (Rics), said: “It could go either way — there are clearly going to be pressures on the market as interest rates and taxes go up. On the other hand, it’s likely these shifts in policy will happen only when the underlying economy is stronger.”

Much could depend on whether there is a second mortgage “freeze” owing to a lack of funding and more strenuous capital requirements on lenders from the Financial Services Authority (FSA), the City regulator, which could force banks to further rein back lending.

The new rules could push up mortgage rates by about 1%, according to the National Institute of Economic and Social Research (NIESR), adding as much as £1,800 to the annual cost of a £200,000 mortgage.

Andrew Gray at Barclays said: “Funding is a continuing problem and the capital constraints are the reason why we’re seeing restrictions on mortgages.”

We look at the arguments for and against diving back into the market:

The election effect

Property growth over the 2005 election period — the three months from April to June, covering the poll in May — was nearly flat at about 0.8%, before prices across England and Wales rose 5.2% in the next quarter, LCP said.

“As we have seen with other key events such as 9/11, the onset of the Iraq conflict and the credit crunch, the market softens quickly but bounces back,” said Naomi Heaton of LCP. “This election is an opportunity for the smart investor to take advantage.”

LCP has launched the London Central Residential Recovery Fund, which will be closing to investors on April 9. The fund is looking to exploit the slowdown in the London markets of Kensington & Chelsea and Westminster. Here, cash-rich and overseas investors dominate and the effects of important events can be more marked as they wait to see the poll's outcome.

Before the 2005 election, transactions in “prime” London fell 27% and prices dipped 5% compared with the previous three months, according to LCP figures. Prices rose more than 9% in the next quarter. The fund wants to acquire twenty one- and two-bedroom flats, although it so far has agreed to buy only five.

Better news for landlords

The annual letting survey released by Rics last week showed that more surveyors are reporting rising rents, with the number of agents expecting rents to increase over the next three months at the highest level in the history of the survey.

There have also been signs of life in the buy-to-let mortgage market, with lenders reducing the deposit required by about 5% to 25%, and cutting arrangement fees on some deals.

Previously, the Post Office was the sole lender to offer mortgages with a low flat fee — rather than a percentage fee. However, in recent weeks, Nottingham building society has also launched a two-year fix at 5.19% with a flat fee of £1,495 for those with a 30% deposit.

The lowest buy-to-let fix remains from The Mortgage Works, owned by Nationwide building society, at 2.99% fixed for a year with a fee of 3.5% for those with a 40% deposit. Rental income must be 125% of repayments and the maximum loan is £350,000.

While most lenders demand 125% “rental cover”, Northern Rock will lend to those with only 120% of their repayments.

Aaron Strutt of Trinity Financial, a broker, said: “Relaxing the criteria in this way should give a bit of extra confidence to those looking to buy in.”

The mortgage freeze

While the number of mortgages available has risen since the onset of the credit crunch, lenders are said to be facing a funding crisis that could force them to scale back again. This could spark a significant fall in property values.

The FSA is considering asking banks to increase the amount of capital they hold in relation to their total lending. NIESR estimates this could prompt banks to put up borrowing costs by 0.3 — 0.9 points.

If they raised by 0.9 points, mortgage rates could hit 6.06% — pushing up the cost of a £200,000 loan by £1,800 a year.

Ray Barrell of NIESR said: “If banks have to hold more capital and liquid assets this puts up their costs. They will have to do so over the next few years. We might expect lending over the next five years to grow more slowly, at about 5% a year.”

Capital Economics, the consultancy, said: "Access to the most keenly-priced mortgages remains limited.

"There is some evidence that lending criteria have loosened a touch further in the early part of 2010, but the bottom line is that tighter lending criteria look set to remain a drag on any housing market recovery for some time."

First-time buyers kept out of the game

Only 26% of those hoping to purchase a home this year are first-timers — a drop from 28% in the last survey and 31% before that — according to Rightmove, the property website. The main reason was the size of deposit needed.

The best deal for those with a 10% deposit is with Nationwide at 5.98% for a two-year fix with a fee of £495. RBS has the lowest five-year deal at 6.39% with no fee. This compares with HSBC's five-year fix at 4.64% if you have a 40% deposit. Last week, Halifax cut rates for those who want a capital repayment mortgage by 0.20%, but not interest only deals, which first-time buyers favour.

Interest rate rises

Minutes from the Bank of England monetary policy committee's March meeting showed increased concern about higher inflation — which could mean rates rise sooner than expected.

The consensus is for Bank rate to rise at least a quarter point by the end of the year, and hit 1.5% by mid-2011.

DEVELOPING FRESH CONFIDENCE



Property developer and car broker Robbie Metha, 29, of Chelsea, west London, is selling one of his investment properties in nearby Kensington this spring. The three-bedroom house, which he hopes to sell for £3.75m, has been let for a year.

Metha, pictured with his friend Katie Green, 24, said: "I wanted to sell a year ago but it wasn't the right time. I'm more confident now — there's no supply in the market but a lot of interest from foreign buyers and Europeans in particular.

"I've now redecorated and furnished the place and it's looking really lovely."

Once the house is sold by his agent Knight Frank he intends to buy again quickly. "There are some good deals to be done here," he said.