Solving the property puzzle of 2011

Grainne Gilmore - December 10 2010 12:01AM

Next year expect a wider North-South divide, more loan restrictions and rising rents

So, has the market been healthier than expected in 2010?

In some places, such as London, yes. In parts of the North, with a heavy dependence on public sector employment, there have been annual declines. The house price forecasts for 2010 varied from a small increase to a slide of 10 per cent plus. The overall outcome has been better than predicted, although the mood became less buoyant in the summer.

The latest Land Registry numbers show an annual increase of 3.4 per cent, but this figure is boosted by the relative strength of London and the South East. The banks' apparent growing aversion to northern housing assets and fears about public sector job losses are the two key reasons for the declines in many parts of this region.

What's the outlook for 2011?

Expect more widening of the North-South divide, but even in the South the mood seems set to be subdued, with buyers made cautious by higher taxes and public spending cuts. Savills argues that equitisation will be the strongest trend.

The prospects are brighter for family houses in locations where there are plenty of equity-rich buyers. Homes in the depressed parts of northern towns, where people tend to own smaller proportions of their homes, could be shunned by lenders.

Yolande Barnes, residential research director of Savills, argues that these properties will be attractive only as a source of rental income to landlords who do not depend on bank finance. Transactions seem set to remain low in most areas. But some pundits still argue that the shortage of new homes — housebuilding has slumped to its lowest for nearly 90 years — could mean an overall rise for the year.

Why are the banks going to be lending even less to homebuyers?
Curbs proposed by the Financial Services Authority that aim to limit the opportunity for a future house price spiral fuelled by easy money will reduce the availability of finance. First-time buyers — and anyone else without spare cash and equity — will be affected. Banks have already restricted their lending.

I'm worried my rent is going to be raised again — how far can it go?

Possibly a lot higher. The average rent in the UK hit a record high of £691 in October, according to LSL Property Services. What lies behind this? Greater demand for property to let. Many people are reluctant or unable to buy owing to the scarcity of mortgages. However, people who cannot sell their homes may start to rent them out, which could decrease the upward pressure on rents; but it is too early to measure the impact of this trend, says Lucian Cook, director of residential research at Savills.

Richard Donnell of Hometrack, the housing data group, says that if renting becomes 20 per cent more expensive than buying, people who still cannot buy will start looking for other options. Some may even move back home.

Is this the moment to start investing in buy-to-let?

There has been a resurgence in the popularity of the buy-to-let business. Lending in this area rose by 12 per cent in the third quarter of this year, according to the Council of Mortgage Lenders, spurred by higher rental market demand and increasing yields — the return can be as much as 7 per cent. But buy-to-let finance is still in short supply, even though Paragon, the specialist lender, has returned to the market. Landlords have to put down a deposit of at least 25 per cent of the purchase price; the loan arrangement fees can be as high as 3.5 per cent of the mortgage.

Melanie Bien, director of independent mortgage broker Private Finance, says: “There are opportunities, but lenders are favouring seasoned investors over novices. The days of making a quick buck are over, so people need to do their research carefully and be prepared to invest for the long term.” In some locations the opportunities for capital growth seem likely to be negligible, both in the short and medium term.

It’s the question troubling dinner tables across the land — will interest rates rise soon?

For once, economists agree that any significant rise in rates in the early part of 2011 is unlikely, although they are not ruling out a quarter of a per cent increase, which would lift the base rate from its current ultra-low level of 0.5 per cent. But the picture is less clear in the second half of the year. The VAT rise, coupled with rising commodity prices, will keep inflation high next year — it is now at 3.2 per cent.

The Bank of England is determined to keep inflation on target at 2 per cent, so it may lift rates later in the year if the economy is withstanding the huge public sector cuts. But any rise is likely to be modest; the Office for Budget Responsibility, the independent scrutineer of Treasury numbers, forecasts that market interest rates, the cost of borrowing on wholesale markets, will rise from 0.8 per cent in the fiscal year 2010-11 to 1.3 per cent in 2011-12.

Do I have a chance of a decent remortgage deal?

This will depend on the Bank of England base rate and how long it stays at 0.5 per cent. When rates rise (see above), lenders are likely to raise their costs. Aaron Strutt, of the Trinity Financial Group, suggests you act now. “Many best-buy fixed and tracker rate mortgages will not get much cheaper, and some low-cost loans could get more expensive early next year,” he said.

Will first-time buyers still be effectively barred from home ownership?

Yes, unless they have generous parents or have saved a large amount of money. For Liam Bailey, of Knight Frank, the inability of younger would-be buyers to fulfil their ambitions is the most critical issue facing the housing sector. First-time buyers may be hoping to benefit from price decreases in 2011, but finance will be increasingly difficult. Loans of more than 90 per cent of a property’s value accounted for less than 2 per cent of the total in the first half of the year. The average deposit for a first-time buyer with a mortgage was also over £31,000 in the third quarter of 2010.

I'm self-employed — will I be able to get a mortgage in 2011?

It all depends on your circumstances. Bien says: "Yes, as long as you can prove your income. Self-certification mortgages have all but disappeared, but if you have two years of accounts you should qualify for standard residential loan deals. If you can't prove your income to a lender you will have to wait until you can."

I need to move house next year for some extra space; should I sell or let my place?

Do you have enough equity to trade up? If you do, there is a strong argument to do so in 2011, before prices begin to stage their recovery. Cook sums up the case for moving home. "Prices are expected to soften over the first half of 2011 but are unlikely to fall dramatically, given that the stock of homes for sale has not built up in the same way that it did in 2008, and mortgage affordability remains high for those who have equity or spare cash. However, for those who don't have equity in the home they wish to sell, letting their property and renting a larger house may be the only option."

Will shared ownership be a good option for first-time buyers in 2011?

Potentially. However, the continued existence of such schemes is likely to be affected by the withdrawal of funding from the Homes and Communities Agency quango.

Housing benefit changes will force housing associations to rethink how much money they can allocate to this type of housing — under which you can acquire a stake in a home and rent the rest. Meanwhile, government support has been cut for for shared equity schemes such as Homebuy Direct — under which you get a loan from a bank and another from the Government or a developer.
However, if you can find a property, a few lenders are still willing to take a bet on these schemes, which are primarily aimed at first-time buyers. Leeds Building Society has a 5.99 per cent fixed-rate shared-ownership deal. Bailey counsels caution to anyone contemplating shared ownership, recommending that you deal only with an established household name.