

Property News and Views



EZINE

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BUY TO LET - IT'S ALL CHANGED!

When it comes to the state of the residential rental sector in recent times, the picture has been far from the clear one portrayed in some quarters. The common misapprehension has been that the sector would collapse in the credit crunch. In fact, landlords have seen more demand than ever, with the people most likely to get their fingers burnt being those who had bought in the peak years of the property boom seeking quick gains.

The situation has been different for those people whose financial strategies have been based on the longer term, with the aim being to make capital gains over a period of many years and therefore not dependent on continual rising prices but rather able to absorb periods of decline in the expectation that things will improve in the future.

Equally, the issue of investment property has also been a mixed bag. Prices have fallen at the same time as the supply of mortgages - including buy-to-let mortgages - has been greatly reduced. This has been bad news for those looking to take out such a loan to acquire properties, but not for those who have the funds to be cash buyers. For them the slump has brought a number of opportunities to acquire property for less.

According to a new report from finance website moneysupermarket.com, the latest situation is that interest in buy-to-let mortgages is rising, yet the supply is not. A study by the site has found that since August 2008 the number of enquiries has risen by 50 per cent, yet at the same time the number of products available is 70 per cent down.

Mortgage channel manager at the site Hannah-Mercedes Skenfield said: "New and existing buy-to-let landlords face a difficult task in finding a suitable mortgage. Our figures show nearly ten per cent of those looking for a mortgage are looking for a buy-to-let mortgage, but the number of products has fallen by over two-thirds compared to this time last year." She went on to warn that this could lead to a lack of new landlords at a time when demand is rising.

Another factor reducing the supply of landlords has been identified by the Association of Residential Lettings Agents Arla. The body has noted a fall in the number of so-called reluctant landlords - homeowners who rent out houses because they cannot sell them. The picture has become particularly notable in London and the south-east, where respectively 72.5 per cent and 78 per cent of Arla members have seen a decrease in this practice.

So, as the market picks up, this practice is "slowly diminishing", Arla operations director Ian Potter commented.

All of this could theoretically lead to a serious reduction in the supply of landlords. But in time the market may correct itself, not least because a lack of a rental oversupply would push rents up and therefore allow investors to charge the kind of rents that could make buy-to-let mortgages easier to pay. Thus it might be that as the credit crunch gradually eases and the number of rental homes dips, the market will converge on a new type of equilibrium. Those keen to invest may wish to watch both rental price trends and mortgage supply levels for signs of this.

Source: Landlord Expert

BUY TO LET LANDSCAPE HAS CHANGED

The landscape of the buy-to-let market has radically changed as a result of the credit crunch.

Buy-to-let was disproportionately affected by the severe disruption to wholesale funding and structured finance, as many lenders relied on securitisation to fund their lending. The inevitable consequence has been a curtailed appetite to lend, with some providers withdrawing from the market altogether.

Of the six largest buy-to-let lenders in mid-2007, two are now state-owned, two have merged and are heavily state-influenced, one has received support from the Irish government, and one is not lending while there is no new funding.

Seven consecutive quarters of decline have left buy-to-let gross lending at very low levels. There were 21,600 new buy-to-let loans advanced in the second quarter of 2009, a relatively modest 4% decline from 22,400 in the preceding three months, but 69% lower than the second quarter of last year and 75% lower than the same period of 2007.

By value, buy-to-let gross advances totalled 1.9 billion pounds in the second quarter of this year, which equated to 5.6% of total gross mortgage lending (compared with 8.9 billion pounds in the second quarter of 2008 and 11.9% of total gross mortgage lending).

But buy-to-let's overall share of the total value of mortgages outstanding in the UK continues to increase. It represented 11.5% of outstanding mortgages at the end of June this year, compared with 10.9% a year earlier. It will continue to grow as the UK owner-occupied mortgage book shrinks (as people repay and redeem their mortgages) relative to the buy-to-let market, which will remain more static as the majority of loans are on an interest-only basis.

Is there demand to be met?

A classic argument in support of the buy-to-let market has been its counter-cyclical qualities: the assertion that when house prices weaken and households are reluctant to buy, they will rent instead, rental yields will firm and it becomes attractive for landlords to hold and expand their portfolios.

But another effect has emerged as a result of falling house prices: the reluctant landlord. Surveys by the Association of Residential Lettings Agents (ARLA) suggest some downward pressure on rents, with the number of rental properties available outstripping the number of tenants because an increasing number of home-owners who are unable to sell their properties are choosing to rent them out instead.

For existing buy-to-let landlords, substantial falls in house prices may result in paper losses. But the majority of rental stock is held by landlords with a portfolio of properties and most of these are long-term investors in property. Successive ARLA surveys have suggested there is little appetite to sell properties even if house prices fall. In the second quarter of 2009, 82% of landlords did not expect to sell.

Thwarted first-time buyers

Private renting meets the housing needs of adults at all stages of life. But it has increasingly served as a "buffer zone" for young households unable to afford home-ownership or meet the strict credit criteria that have become a feature of the mortgage market since the financial crisis began.

If house prices recover before the flow of funding returns to the mortgage market, then many would-be first-time buyers may have no option but to continue to rent. But involuntary landlords may then decide to sell, decreasing the supply of available rental properties and pushing up rents.

However, rising unemployment will also have an impact on tenant demand and rental yields. Recent ARLA surveys have reported increasing numbers of landlords struggling with tenants in rental arrears.

The housing shortage

Rental demand remains underpinned by strong fundamentals over the long term. There is a continued shortage of housing in the UK and the government is highly unlikely to achieve its target of building 240,000 new homes each year until 2016. Only 105,000 houses were started in England in 2008, and the 2009 total looks likely to be lower still.

BUY TO LET LANDSCAPE HAS CHANGED [CONTINUED]

The UK also has a relatively small private rented sector compared with other industrialised countries, providing scope for further growth of the buy-to-let market.

Lower interest rates mean landlords should be able to cover mortgage payments more easily, especially where they have a portfolio of properties. Where the property is let, the incentive for most landlords will be to sit tight on the improved cash flow.

Prospects for new acquisitions are mixed. Lower house prices are an incentive for investors to add to their portfolios. But the impact of sharp falls in house prices on indexed loan-to-values, and tightened lending criteria will limit borrowers' ability to remortgage and re-leverage their portfolios of property.

In the medium term, profits will be driven by rental income and there will be limited appetite from speculative investors, given the uncertain prospects for capital gains.

Arrears on buy-to-let mortgages

Lower interest rates are making it easier for buy-to-let borrowers to meet their contractual payments and recover from past arrears. The buy-to-let sector benefits significantly from lower interest rates as the majority of loans are on an interest-only basis, and these loans will see a larger proportionate decline in monthly payments than repayment loans.

Buy-to-let arrears improved on all measures in the second quarter of 2009, but still remained high on a historical basis. There were 29,400 mortgages in arrears of three months or more (2.49% of all buy-to-let mortgages), down 17% from 35,600 (3.06%) in the previous quarter. And the number of mortgages in arrears of more than 1.5% of the balance outstanding fell 20% from 28,800 (2.47%) at the end of April to 22,900 (1.94%).

There are other signs that more buy-to-let landlords are managing to pay off arrears and recover their position. Anecdotally, lenders are reporting an increase in the number of landlords being allowed to resume control of their properties once again, having earlier appointed a receiver of rent to manage a property in mortgage arrears.

The number of possessions was unchanged from the first quarter at 1,400 (0.12% of all buy-to-let mortgages). Low interest rates will continue to help struggling landlords and stem enforcement actions. And there is some confidence within the sector that a bulge of actions arising from fraud is subsiding.

An important factor overall will be the resilience of many existing landlords and their portfolios. The outlook for the buy-to-let sector is one of slow growth, constrained by the shortage of funding and number of active lenders. Conflicting factors will impact rental demand in the recession, but long-term prospects remain strong.

Source: LandLord Expert

ONLINE LANDLORD DATABASE CRITICISED BY LANDLORD ASSIST

The launch of an online database, which shows all members of the National Landlords Association, has been criticised by Landlord Assist, the nationwide tenant eviction and rent collection service.

Mynlalandlord.org.uk has been designed by the NLA to allow tenants to check whether their landlord abides by the highest standards of residential property letting.

David Salusbury, Chairman of the NLA, said that the database provides tenants "with a level of security that a landlord is bound by certain standards of practice".

He added that landlords can show they are reputable by putting their names on the list.

But Landlord Assist, argues that the 88 pounds membership cost (including annual fee and joining fee) to feature on the list is simply another cost to many already struggling landlords.

Landlord Assist argues that there are thousands of very good landlords who are not members of the scheme and yet provide a superb level of service to their tenants.

Indeed Landlord Assist believes many non-member landlords who are not featured on the list may in the future be at a disadvantage in the fight to secure tenants.

Graham Kinnear, MD at Landlord Assist is already concerned at the costs facing landlords.

He says: "With a gas safety inspection, energy performance certificate, inventory, letting fee, HMO Licence, electricity check and agents commission to pay for, landlords already have enough to spend their money on, particularly in the current climate where rents have actually dipped as a result of over supply in some areas."

Landlord Assist maintain that there is sufficient legislation in place to ensure that a landlord takes their responsibilities seriously and provides safe, quality accommodation to tenants and the provision of a member website will not assist the situation nor, in the view of Landlord Assist, make a rogue landlord suddenly adhere to legislation.

Stephen Parry, Commercial Director at Landlord Assist says: "Many letting agents throughout the UK have Landlord Assist approved status through their provision of our tenant referencing service and tenant eviction process. It would be unfair for us to state that they are the top agents in the country just because they partner with us and this web database is the same. Meet your landlord, ask friends for recommendations, ask the local authority their thoughts on a prospective landlord in your area and should things not work out then there is already a raft of legislation in place that will protect the consumer."

Source: LandlordAssist.co.uk

HOMETRACK REPORTS WORST MAY NOT BE OVER JUST YET

Major UK house price intelligence group Hometrack has today revealed the findings of its latest research into the UK housing market.

The group said that though house prices rose 0.1% in August for the first time in more than a year, the rise is fuelled by short supply pushing up prices in some areas, not a recovery in the wider housing market.

In fact, according to the report, house prices rose in just 11% of the country, mostly in the South. In London house prices rose by 0.3% after months of 2% falls and rising demand. The fact that homes for sale in the capital fell by 5% in August says it all.

Richard Donnell, director of research at Hometrack, said: "Taken at face value these headline results provide further support to talk of the green shoots of recovery, but dig beneath the headlines and the reality is quite different."

"There is a danger that an increasingly severe shortage of housing for sale in a relatively limited number of markets is impacting on prices and the headline performance of the **housing market**, creating the impression of a national housing market recovery," Mr Donnell said.

The report mentioned the lack of mortgage availability for first time buyers and rising unemployment as obstacles to recovery, but of course, the short-supply itself is also an obstacle to recovery, according to Richard McKay director of UK property sales portal Zungalow.com.

"The shortage of supply driving up prices in some areas is creating false optimism in the housing market, which will prove to be bad news in the long-run. Not least because it is reversing the improvements made to affordability by the correction, leaving a further correction necessary," he said.

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