

## Welcome to our newsletter – January / February 2014

### Topical issues from your professional local agents

We enter the New Year in a much changed environment and sections of the residential market are undergoing rapid change. Recent government action has altered the outlook for property owners, prospective owners and also for those who are now investing in property through lettings.

A patient generation of first-time buyers have been saving up to pay the large deposits now required for London property but now have access to borrowings through the Help to Buy scheme. The existence of the government scheme has given the confidence boost to generally prompt banks to return to more normal patterns of lending. The banks' own funding crisis peaked in 2012 so that it is expected that barring unforeseen events, through 2014, their own balance sheets will be stronger and more capable of supporting lending both for private owners and for business.

The number of new loans in the mortgage market reported in Bank of England figures was up last November from an average of 62,999 over the previous six months to more than 70,000 for the first time since January 2008. Net mortgage lending by building societies hit £12.1 billion in that year, almost double the £6.2 billion loaned in the same period in 2012. Net lending by all other lenders actually fell by £2.1 billion in the year to November 2013. Around one in three new loans, 78,300, were to first-time buyers, of which 29% were made to borrowers with a deposit of 10% or less.



The Help to Buy mortgage guarantee scheme has certainly generated activity among first-time buyers and spurred movement further up the market. As a result, prices have, on average, increased - although it is always important to put the word 'average' into context.

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London continues to drive growth in the property sector but the overall picture is more complicated and price are generally far stronger in the capital than anywhere else in the country. Research from Shelter, based on a YouGov survey of over 4,000 British adults, shows household budgets across the country at breaking point. Families are worst affected with more than 70% of rent or mortgage payers with children currently struggling or falling behind with payments.

Shelter is warning that many people, feeling overwhelmed by money worries, will put off overdue bills until it's too late. The findings reveal a worrying trend of people unable to face their financial difficulties and nearly one in five saying they've not opened post if they thought it was a bill or late payment reminder.



All this takes place at a time when interest rates have never been lower and can only rise. If they do, the impact will depend on how far they rise and the amount of incremental increases. Another key factor will be policies driven by the focus on 2015 which is the date for the next general election.

## Prices

As there are now frequent headlines and news stories of house prices on the rise again it is useful to address the question of how can we really know what is going on? The topic of property prices is a source of a good deal of speculation and much confusion as journalists can pick from available data sources and apply across a wide or narrow area reflecting one or more type of index or a personal view on prices. It has to be admitted that measuring the price of property nationally or regionally in any specific week is a challenge and the view on specific properties of local experts will usually be the most accurate guide for buying, selling or investment purposes. There seem to us to be basically three different ways of valuing; sample, sentiment and factual.

The various indexes available use differing methodologies with little consistency in approach. There are a number of monthly reports using the sample approach and amongst the best known are those from Nationwide and Halifax – both members of the Council for Mortgage Lenders (CML). They have a similar method using their own valuers' assessments of price on buyer mortgage applications which they add to their database.

The report takes a sample of their database figures and measures any movement from the month or year before. The fact that these reports are based on mortgage approvals rather than cash buyers and only take in samples from their own cases means that much of the market is left out of account.

The Office for National Statistics have a methodology that takes a sample set of mortgage completions data from the CML. They then convert this data into a set of notional average prices.

In the second category, the Royal Institution of Chartered Surveyors (RICS) and National Association of Estate Agents (NAEA) asks their members monthly whether they are seeing house prices rise or fall and these responses lead to a sentiment rating rather than a strict measurement. Any indications based on asking prices will not tell you what houses are selling for, only what the people putting their homes up for sale think they are worth.

In our experience the most reliable measure is the factual approach from the Land Registry where the price recorded on actual deeds of transfer are registered by post code and by property type. The registry holds details of both freehold and leaseholds and is only lacking details of the transfers of unregistered land which means even this picture is not totally complete. The biggest drawback for buyer and sellers is that the figure issued for any month will reflect not the sales in that month but mostly transactions that have been completed in the previous months as they proceed to registration after completion has all taken place and that could be a month or so after the contract was agreed.

So these figures cannot represent the sale prices achieved or achievable in the market at the current time. The Land Registry figure will however be an accurate snapshot on the recent past and that is useful to examine trends and the popularity of locations by post code or by the type of property. We can help you to access these statistics if you would like to work out your own forecast. A methodology which we have followed in house with the PH Index takes sample properties in various sectors of the market and re-values those same properties over time to provide valuations reflect percentage changes in market conditions

There is some comfort in the figures but investors experienced in the sale and purchase of properties will know that there is no substitute for valuing a specific property at a particular point in time through an agent who has relevant experience. If you are not experienced in selling or buying property however qualified in your own field of work it pays to obtain expert views on pricing and understand the reasons why different valuations are put forward.

## Buy to let

The Revenue are targeting anti-avoidance activity in particular business sectors and the current campaign focuses on property, which is let.



There are many cases where landlords who are new to the buy to let market have forgotten to inform HMRC of the rental income and there is estimated underpayment of tax of about £500 million each year. A campaign is to run for 18 months offering reduced penalties for those who come forward and bring their returns up-to-date. In the course of bringing accounts up-to-date it is important to obtain the right advice on relevant allowances and reliefs that may be available to you. But in any event the first step in being able to claim a deduction for expenses is to keep good records.

Keeping all relevant information and the reason for expenditure is vital for both annual income tax declarations and for the capital gains tax calculation when you sell. Advice should also be taken prior to any refinancing of borrowings to ensure that interest is a deductible expense.

A theme underpins our work expressed in three A's – **Access Advice Action.**

**Access** - we signpost our clients to relevant help and information and we will work with others where other professional help is involved

**Advice** – to ensure every situation has accurate diagnosis to form a plan

**Action** – implementation through an efficient process to satisfy your requirements



For it all to go 'according to plan - more or less' we all need to give consideration to where we are today and where we want to be after tomorrow.

**Access**

**Advice**

**Action**