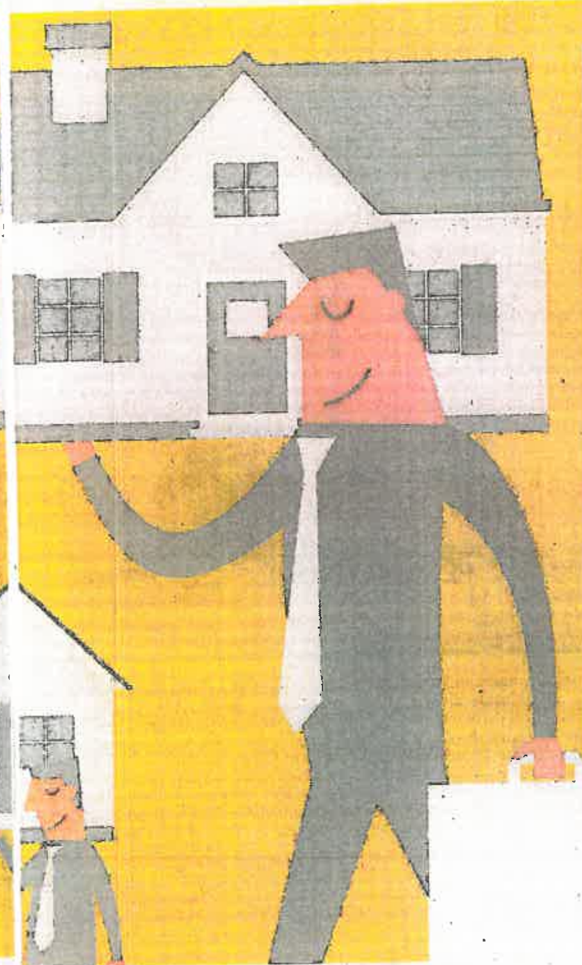
YOUR MONEY

Edited by TRICIA PHILLIPS

Making a wise move in a wild housing market

HOME TRUTHS FOR UNSURE BUYERS



BY HARVEY JONES

HOUSE prices are rising at record-breaking speed as people rush to get moving after lockdown, but today's buyers need nerves of steel in case it all ends in a crash.

March was the busiest month on record, with an incredible 191,000 property sales, according to the latest Halifax house price index.

House prices have risen by 8.2% over the past year to an average £258,204, another record, up £20,000 in a year.

Record low mortgage rates, the extended stamp duty holiday and a host of government-backed schemes such as Help to Buy, are turbo-charging price growth, but experts fear the boom is getting out of control.

And first-time buyers face a tough decision. Many will be desperate to buy before prices spiral even higher, but others will be scared of overstretching themselves.

Demand and deals

Jonathan Hopper, chief executive of Garrington Property Finders, says spring is traditionally a busy time for estate agents, but 2021 is "supercharged" as a year of pent-up demand is unleashed.

This is now a seller's market, as lenders release competitive new mortgage deals and vaccines boost buyer confidence.

"The yawning imbalance between supply and demand is forcing prices up at breathtaking speed."

Hopper says supply may improve as high prices encourage more owners to market their homes.

"This may help calm prices, but for now the market is white hot."

Nicky Stevenson, managing director at estate agency Fine & Country, says buyers are "frantically bidding up prices" as they seek more space post lockdown. "This won't be the last record high this year by a long stretch."

Iain McKenzie, chief executive of The Guild of Property Professionals, urges would-be vendors to take advantage, adding: "If you delay the bubble could burst."

Iain Swatton, head of intermediaries at mortgage switching platform dashly.com, is also wary.

He said: "The bubble will almost certainly burst later this year when the full economic impact of Covid and Brexit hit."

We're all going on a stamp duty holiday

It seems that no holiday is safe these days. Buyers keen to take advantage of Chancellor Rishi Sunak's extended stamp duty holiday could face disappointment.

This offers a maximum £15,000 saving on the properties up to £500,000, but only runs to June 30.

After that, the nil-rate band is cut to £250,000 until September 30, saving buyers a maximum £2,500, then reverts to its previous £125,000. Miles Robinson, head of mortgages at online broker Trussle, warns that many buyers will miss the deadline, as transaction times slow to a crawl amid high demand.

"It takes on average 171 days to complete, but June 30 is less than 50 days away," he said.

Halifax managing director Russell Galley says prices should hold firm even after the holiday draws to a close as "low stock levels, low interest rates and continued demand continue to underpin prices".

Buyers feel the pressure

The "blazing hot" housing market is turning up the heat on buyers, says Lucy Pendleton, property expert at estate agents James Pendleton. "Most just work out what they can afford and go for it. There is no time to waste."

Crawford Taylor, founder of savings app Nude, says renting is generally more expensive than a mortgage, so it can make sense to buy sooner.

"By owning a property, you are also building your future wealth."

However, sales executive Grant Clark, from Edinburgh, refuses to be rushed. He said: "Given the long-term impact of Covid on the economy, I believe prices will dip at some point, so I am happy to wait."

Grant, 31, admits his strategy may backfire, but he is willing to take that chance rather than overpay.

ON THE FENCE Grant Clark is hoping for a dip before he buys

First-time buyer help

The Government now offers a string of schemes aimed at turning "generation rent" into "generation buy". The latest is the mortgage guarantee scheme, aiming to increase the supply of 95% loan-to-value mortgages, by protecting lenders against the higher risks of lending to buyers with low deposits.

Borrowers with 5% deposits can choose from deals at Barclays, Halifax, HSBC, Lloyds, NatWest, Santander and RBS, with more to follow.

Two-year fixed rates start at just under 4% but Mark Harris, chief executive of broker SPF Private Clients, says put down 10% if you can.

"Then you can get two-year fixed rates from 3% and five-year fixes starting at 3.3%."

Bigger deposits are even better. "With a 25% deposit, mortgages rates start from just 1.19%," he said.

Make sure you qualify

Even if you do have a 5% deposit, this does not automatically mean lenders will grant you a 95% loan-to-value mortgage. They will examine your monthly income and expenses, to see whether you can afford the repayments, says Nigel Purves, chief executive at Wayhome.

Borrowing is typically limited to between three and four-and-a-half times income, he says. "Somebody on the average £30,000 wage could borrow just £135,000."

Rosie Fish, mortgage expert at Habito, says buyers also need squeaky clean credit records to qualify for higher-LTV deals.

She said: "Your score now has to be excellent, rather than just good."

John Szepietowski, partner with Audley Chaucer Solicitors, says do not over-borrow and make sure you can afford your mortgage after the initial two or five-year deal expires.

"After that, you could pay more significantly more, particularly if interest rates have risen."

He says Government schemes are sticking plasters over a gaping wound.

"Wages need to rise to allow young people to get on in life."

Consider all your options

First-time buyers in England looking to purchase a new-build home could consider the Help to Buy equity loan scheme. This gives buyers with a 5% deposit an interest-free Government backed loan for 20%.

Lenders have designed special deals for families looking to help young buyers, including Barclays Family Springboard and Lloyds Lend a Hand. Shared ownership or buying with friends are other options to explore, or look into Wayhome's Gradual Homeownership part-own part-rent product.

Another option is to extend your mortgage term beyond the traditional 25 years, to as long as 40 years.

Broker Habito has launched a range of fixed rates of up to 40 years, with no early repayment charges or exit fees, up to 90% loan-to-value.

Harry Fenner, chief executive of Navana Property Group, says long-term deals have never taken off but could allow first-time buyers to borrow more.

But he warned: "Extending your mortgage will increase your total interest payments over the term of the deal."

Somebody borrowing £200,000 over 25 years at 3.5% would pay £1,002 a month, but that would fall to just £775 if stretched over 40 years. However, increasing the mortgage term to 40 years means paying £70,000 more in total interest, lifting the bill from £100,477 to £172,077. You could always take out a mortgage over a longer term, then make overpayments later, when you (hopefully) have more money.

Think before you buy

Karen Noye, mortgage expert at Quilter, warns Government support could backfire on first-time buyers.

"Those buying at 95% LTV could quickly fall into negative equity if house prices retreat," she said.

This can cause problems if you want to sell, as the sale price may not clear your mortgage, or even if you want to switch to a more competitive mortgage.

Karen says first-time buyers struggling to afford their first choice area, should think carefully. "Make sure the area is right for you, and the property will be easier to resell when you move."

Factor in all the costs of buying a property, including legal fees, mortgage arrangement costs and insurance, and seek advice from an independent mortgage broker.

Duncan Kreeger, property finance expert at bridging loan company TAB, says buyers should not fret too much about a crash.

"If you like your property and plan to live there for a number years, you have time for prices to recover."

Tom and Victoria are keen to buy in East London, but find local prices "daunting". The couple, both in their early 30s, work in the film industry but are wary of committing to a property while building their careers.

They accept property could get more expensive in the interim.

"We'll just buy whatever we can afford, when it feels right."

Waiting for a crash

Many people will be reluctant to buy their first property at today's crazy prices, but AJ Bell financial analyst Laith Khalaf says waiting for a crash could backfire as house prices may rise even higher.

"The boom is in full swing, and we haven't even hit the busy summer season. A crash may look like your best hope, but there's slim chance of that at the moment."

FUTURE Amy can't wait to move in to her first home

I leapt on the ladder

Amy Gillin is excited about buying her home with partner Lewis Amos after having an offer accepted on a three-bed property in Worcester.

Amy, 24, says although prices are "a little steep", today's low mortgage rates make it cheaper than forking out for rent.

She found being a first-time buyer stressful in today's market, with rising prices and intense competition.

"If you like the house you have to put an offer in fast, or someone else will snap it up."

Sellers have also been reluctant to budge on price with property in demand.

"I had reasonable offers rejected outright."

Amy and Lewis managed to assemble a 10% deposit.

"This helped us get a more competitive interest rate than if we had put down just 5%," she said.