

Property 2021 & beyond

Sunday 21 February 2021 – Online Zoom Webinar

Residential | Buy to let | Developments

UK Residential Market

LONDON MORTGAGE SOLUTIONS



Speaker introduction

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End of the Stamp Duty – Impact on the Housing Market

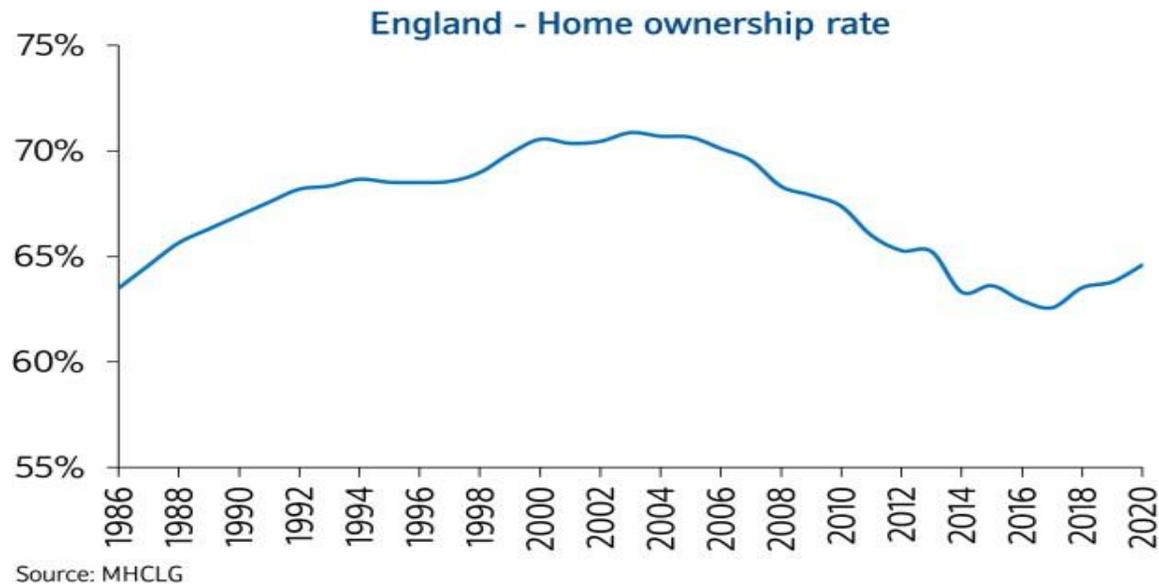
Current status

- Current stamp duty reprieve has undoubtedly helped to fuel growing demand
- Buoyant Market - total stock is at its highest level pre-EU referendum in 2016
- House prices are 5.4% higher than a year ago
 - on average by £13,000 with average property price at just under £252,000
- January 2021 has seen a slight cooling – 0.3% down from December 2020

The Residential Market: Short to medium term Outlook

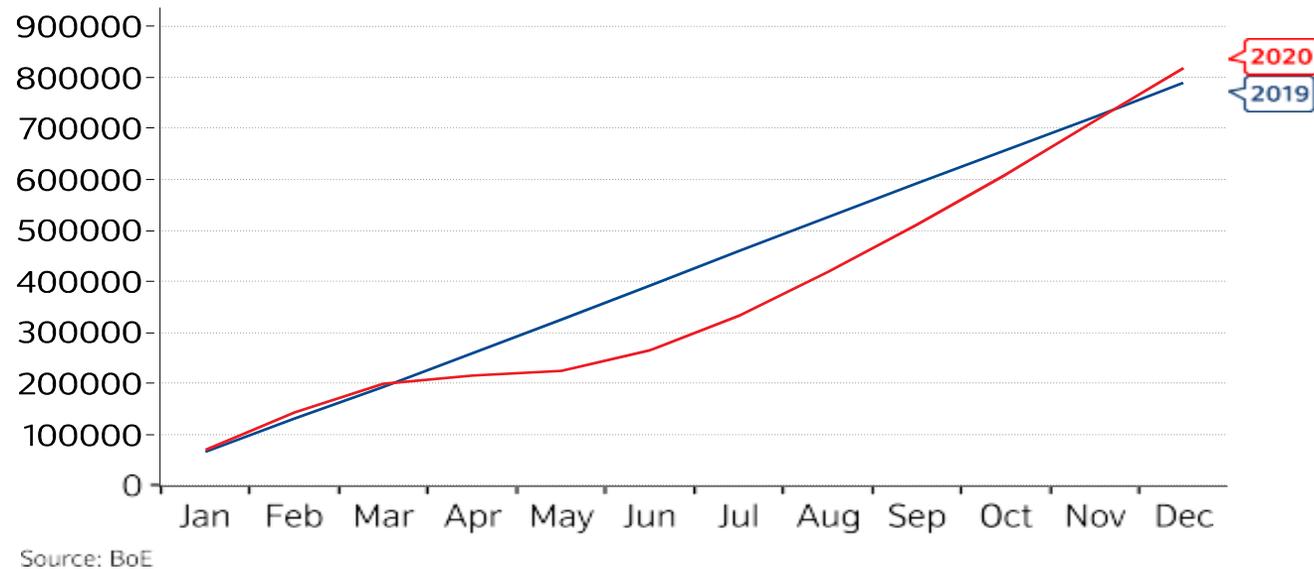
- Pandemic
 - macro and micro effect across sectors (e.g. retail, self-employed, hospitality)
 - inability to spend (i.e. caution from job loss/furlough to lockdown) leading to slower market activity and downward short term pressure
- The end in sight? Vaccine roll out will lead to market and economy opening up.
- Homeowners and first time buyers have over £125bn saved over the past year and looking to spend on new homes and larger living spaces
- The Budget? Wait and see – Government may continue stamp duty holidays or introduce new measures to sustain and enhance market activity
- **Conclusion** – We expect the residential market to remain buoyant with lower interest rates, return to a near normal, and a steady increase in house prices

Home Ownership



- Home ownership saw a slight increase in 2020 to 64.6% (from 63.6% in 2019).
- Third year increase in a row, although it remains well below the peak of 2003 of 70.9%

Mortgage Approvals



- Total number of mortgages approved for house purchases in 2020 exceeded 2019.
- House price growth ended 2020 on a six-year high, despite the economy shrinking by 10%.
- 2021 housing market activity outlook remain fairly buoyant despite the end of the stamp duty holiday on 31st March 2021.

Residential Mortgages – Overview

The three C's:

- The Conundrum: Lenders want to lend!
- The Category: Employed and Self-Employed Mortgages
- The Caveat: While the number of new deals has risen, rates and terms for different categories of borrowers vary. There are winners and losers

Residential Mortgages – Employed

Employed

- Employed borrowers are perceived as low risk
- For employed borrowers, approximately 248 deals on 90% loan to value (LTV) deals currently vs 70 in July 2020
- LTV determines rates – the lower the LTV, the lower the rates being offered
 - LTV < 60% are from 1.22% upwards
 - LTV < 75% are from 1.44% upwards
 - LTV < 90% is 3.48% upwards

Residential Mortgages - Self Employed

Self Employed

- Approximately 5 million self-employed people in the UK
- If businesses are not currently trading because of lockdown, lenders are not taking their income into account for assessing affordability
- Stricter underwriting and greater levels of scrutiny
 - in addition to looking at last 2/3 years of accounts, lenders are now also requesting the most recent business bank statements -what you have now that matters to them
- Financial support from Government – lenders judging these applications and treating the loans as a liability in the background

Remortgage or Product Transfer?

Re-mortgage – Move or Transfer at the End of the Mortgage

- For many, the pandemic has affected revenue, income and profitability (Income)
- Even where income has been positive, lockdowns have meant many cannot show a consistent flow of Income
- In such case, product transfers within the same lender are the best option to a more competitive deal to avoid the lender's pricey standard variable rate

Income multiples

- To repeat from earlier - Lenders want to lend
- Generally - income multiples are up to 4.75x income
- However, for professional or those in the high-income bracket (£75k plus or joint income of £100k plus), income multiples are increased to a maximum of 5.5x income
- Self-employed individuals – Salary & Dividends over last 2yrs or Salary and Net Profit

What's in a Buyer's Thought Process in 2021?

Space - post pandemic, many companies are open to staff working from home – permanently or partially

Larger houses and living spaces

Conversion possibilities / Home Improvements – e.g. garages to offices

Surge in first time buyers or home movers leaving the concrete jungle for more space

Conclusion

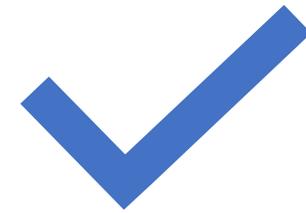
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Lenders Want to Lend



Market rates are currently
at their lowest for decades



Service levels

Buy to Let Assessment Guide

- **Types of landlords** – First time buyer/first time landlords, Accidental Landlords, Portfolio Landlords
- **Deposit required** – at least 20% to 25%.
- **Level of Borrowing is based on Affordability assessment** – lenders use Interest Coverage Ratios (ICR). Typically, at 125% but for higher rate tax payers this is 145% (in line with the tax relief provided for higher tax payers), tested at a representative interest rate of 5.5%. Ltd Companies BTLs are assessed on the lower tax rate of 125%.
- **Repayment type** – Mainly interest only
- **Term** – depending on lender can go up to the age of 80 or a max term of 35 years.
- **Type of Ownership** – Personal names and Ltd Companies. Rates differ.
 - Portfolio Landlords - Professional landlords with four or more properties are often described as 'portfolio landlords'. Classed differently by lenders and assessed based on portfolio stress testing, maximum portfolio sizes and higher interest rate coverage ratios. Specialist BTL lenders can provide leverage but the opportunity cost is higher interest rates and fixed for 5 years as a minimum.
- **Minimum Income** – some require £25,000, others do not have a minimum income. Lenders may also use “top slicing”.
- **Costs to consider** – Legals, Stamp Duty, Valuation and Arrangement Fees charged by the lenders (up to 2%), which can be added to the loan.
- **Refurbishment Buy to Let Products** – The product brings together the flexibility of Bridging Finance with an exit onto a long-term Buy to Let Mortgage once the work has been completed.

Life Insurance

Covid-19 raised the importance of Insurances

- The importance of Insurance – You should consider the financial implications for your family if you were to die or suffer a serious illness, especially if you are the breadwinner.
- Types of Insurances – Life, Critical Illness, Income Protection, ASU, Buildings and Contents
- The cost – based on what is affordable and providing you with adequate cover