

BUYING A HOUSE IN CHALLENGING CIRCUMSTANCES





With a nationwide lockdown freezing the UK's property market in March 2020, its reopening in May saw buyer activity soar due to pent-up demand.

A temporary cut to Stamp Duty between 8 July 2020 and 31 March 2021 is likely to further bolster this demand over the next nine months. Despite this, significant economic turbulence is rendering buyers cautious. This guide considers how you can prepare for buying a property in this challenging market.

With lockdown restrictions and government guidance changing regularly, what's happening in the property market now?

Government guidance

Current government guidance states that those wishing to move home are free to do so. However, it adds that certain processes must be adapted to reduce the risk of contracting COVID-19. This includes initial virtual property viewings; sellers vacating their property while buyers are viewing; and cleaning your property thoroughly before buyers move in.

House prices

House prices have suffered, with annual house price growth slowing to -0.1% in June against 1.8% in May – the first annual fall since December 2012¹. However, research suggests asking prices are up by an average 1.9%, while the Stamp Duty holiday is likely to increase sellers' confidence in asking for higher prices².

Mortgage affordability

First-time buyers have been among the worst affected by the pandemic, with lenders withdrawing hundreds of products designed for buyers with smaller deposits. In March, there were 779 90%, and 391 95%, loan-to-value (LTV) mortgages on the market. By June, this had decreased to 70 and 31, respectively³.

¹ https://www.nationwide.co.uk/-/media/MainSite/documents/about/house-price-index/2020/Jun_Q2_2020.pdf

² <https://www.rightmove.co.uk/news/house-price-index/>

³ <https://www.mortgagefinancegazette.com/lending-news/high-ltv-mortgage-shortage-worsens-july-13-07-2020/>

A MORTGAGE IS A LOAN SECURED AGAINST YOUR HOME. YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE OR ANY OTHER DEBT SECURED ON IT.



A man with dark hair and glasses is laughing heartily, looking towards a woman whose face is partially visible on the right side of the frame. They appear to be in a professional setting, possibly a real estate office, with a whiteboard in the background. A large teal graphic overlay covers the bottom half of the image, containing text.

KEY CONSIDERATIONS BEFORE BUYING

Some of the factors you might usually consider before buying a house may not apply in the current circumstances. For example, you may be able to extend your search beyond commuter hotspots if you are now working remotely. Likewise, those purchasing before April next year will not have to factor Stamp Duty into their moving costs, if purchasing a main residence costing up to £500,000.

You may have to give extra consideration to these factors:

- **Mortgage affordability** – while record low interest rates mean competitive rates are available, buyers with smaller deposits may struggle. Getting your finances prepared and ensuring your credit score is as clean as possible will be vital to securing a mortgage.
- **A time-limited Stamp Duty offer** – this is likely to lead to a short-term surge in activity as buyers rush to take advantage.

Solicitors and lenders are likely to be busy as the deadline approaches, so it's best to get going sooner rather than later.

- **The cheapest solicitor is not the best** – solicitors offering cheaper fees can be a false economy. They typically offer low fees because they take on many transactions at once. This will inevitably slow the process – not ideal when time is of the essence! It's worth finding a recommended professional with a proven track record.
- **Take advice** – the property market is changing daily and getting a mortgage may prove difficult. A professional adviser can assist you in finding the most appropriate mortgage for your circumstances, so get in touch with us.

**Q. What if I'd already exchanged before the Stamp Duty holiday was announced?**

A. Don't worry! Stamp Duty is payable upon completion of your purchase, so as long as your completion date was on or after 8 July, you'll be subject to the new rates.

Until 31 March 2021, the usual Stamp Duty threshold of £125,000 has been increased to £500,000 (applicable to England and Northern Ireland).

For purchases above £500,000, the rates are:

- The next £425,000 (portion from £500,001 to £925,000) will be 5%
- The next £575,000 (the portion from £925,001 to £1.5 million) will be 10%
- The remaining amount (the portion above £1.5 million) will be 12%.

Q. Should I offer below the asking price?

A. You may be thinking that sellers will accept below the asking price to secure a sale in the current climate. Of course, an asking price is what the owner would ideally like to make – not necessarily what the property is worth. Before making an offer, work out your budget to see what you can afford, and speak with a professional adviser about the best way to proceed. If you do make an offer under the asking price and the seller doesn't accept, then you can still try to negotiate a price that is acceptable to you both.

Q. How can I make myself more attractive to lenders as a first-time buyer?

A. With mortgage deals for first-time buyers much reduced, making yourself as attractive as possible to lenders will improve your chances of mortgage approval.

- Save as much as possible – the bigger your deposit, the greater your chances of mortgage success. Many people say they've saved more money during lockdown, so putting this money towards your deposit is very sensible.
- Understand and improve your credit score – lenders will use your credit file to check you have a good repayment history, so ensure you pay any debts on time, avoid your overdraft and don't overspend on your credit card.
- Get on the electoral register – lenders will use the electoral roll to verify your identity, so if you aren't on the register, you'll find it difficult to get a mortgage.

Q. Before the COVID-19 pandemic, I wanted to buy a second home. Should I continue with my plans?

A. If you can still afford it, now could be the perfect time to purchase a second home or buy-to-let property. Even though the 3% Stamp Duty surcharge for additional property buyers remains in place, it applies on top of temporarily decreased standard rates due to the Stamp Duty holiday. So, on properties costing up to £500,000, second home buyers will now pay 3% Stamp Duty, rather than up to 8%.

Q. When will things go back to normal?

A. It's very difficult to say when the property market will return to its pre-COVID state. A market forecast for summer 2020 predicts transactions will be down -36% on 2019 levels this year and -10% in 2021, before returning to +12% growth in 2022. Meanwhile, it anticipates a return to house price growth next year – and its five-year forecasts remain largely unchanged by the pandemic⁴.

Of course, any recovery is dependent on the wider economic, but evidence seems to suggest that things will be nearing normality by late 2021; this is, of course, highly dependent on the potential for future lockdowns.