Home and Finance I.F.A. Ltd
14 New Market Street, Ulverston, Cumbria LA12 7LN
T (01229) 583691 F (01229) 581311
E info@homeandfinance.org W www.homeandfinance.org
Authorised and regulated by the Financial Conduct Authority.

AUTUMN EDITION 2016

YOUR WINDOW ON FINANCIAL MATTERS

INSIDE THIS ISSUE

THE OUTLOOK FOR RESIDENTIAL PROPERTY

Prior to the EU referendum, the London property market had shown some signs of cooling down. With the capital most likely to feel the immediate effects of Brexit, this doesn't come as too much of a surprise; before the vote there was strong evidence that prices had been moderating in the capital. New listings were outpacing sales even before 23 June.

A TWO-SPEED MARKET

Outside London, residential property researchers, Hometrack[1], report that house price growth and recent sales momentum in regional cities has held up well. They conclude that the London market faces further headwinds as more supply and fewer sales are likely to reduce the growth in house prices in the months ahead. In the 12 days after the EU referendum, property researchers, LonRes[2], reported that the number of cuts to London house prices soared by 163% as against the 12 days before the vote.

A recent survey by the Royal Institution of Chartered Surveyors[3] indicates that 12 month price and sales projections are edging back into positive territory. It is also evident that the shortage of property for sale is providing some underpinning for prices. As usual wide regional variations are evident.

With few hard facts to go on at present, no-one knows for sure what effects Brexit will have, or indeed how long it will take for the UK to complete its withdrawal from the EU.

At present, lenders continue to be lending as normal, but volumes may decline if consumer confidence in the economy were to fall. Any fall in prices will be encouraging news for first-time buyers who have long felt priced out of the market.

GUIDANCE FOR WOULD-BE BUYERS

If, for instance you are looking to buy a home that you intend to live in for many years, and you feel sure that you can comfortably afford the repayments, even if interest rates were to rise at some point in the future, then you are less likely to be affected by short-term market movements. With interest rates low and lenders offering very competitive mortgage deals, this could be the right solution for your housing needs.

The best course of action, whether you are a first-time buyer, second-stepper, or looking to enter the buy-to-let market, is to consult your mortgage adviser.

A mortgage loan will be secured against your home or property.

[1] Hometrack, June 2016 Cities Index, July 2016
[2] LonRes, Research, July 2016
[3] Royal Institution of Chartered Surveyors, Residential Market Survey, August 2016

NEWS IN BRIEF

Property fund suspensions – a sign of things to come?

In the immediate market turmoil that followed the Brexit vote, a number of property funds suspended trading due to the high number of investors who wanted to take their money out of these funds, fearing a property market crash was imminent. This caused many to worry that this might be a developing trend.

However, many experts stayed calm and took the longer view. The general opinion was that we can expect short-term volatility in markets while the terms of the UK's deal with the EU are hammered out. However, many commentators agree that we are not seeing a rerun of the conditions that were present at the time of the 2008 crash, and property is still a valuable asset class with good prospects for growth over the longer term.

Some suspensions have already been reversed, and there's a calmer mood prevailing. Commercial property funds could, it's widely believed, end up benefiting from Britain's exit from the EU as foreign buyers may take advantage of the weaker pound to snap up British property assets.

ACCIDENT, SICKNESS AND UNEMPLOYMENT INSURANCE EXPLAINED

This kind of cover is particularly useful if you worry about how you'd cope financially if you couldn't work because you had an accident, were sick or through no fault of your own, had lost your job.

If this were to happen, many families have limited savings and wouldn't be able to meet their overheads such as mortgages or rent, loans or household bills for more than a couple of months before facing financial hardship.

With statutory sick pay set at just £88.45 per week and only payable for 28 weeks, being off sick could represent a serious fall in monthly income. It makes sense to have a cash cushion to fall back on if you were unable to work due to illness or accident for a period of time.

POLICIES TAILORED TO YOUR NEEDS

To provide funds at times like these, there are policies available on the market that pay a tax-free monthly income if you are unable to work as a result of sickness, incapacity, or loss of employment. They are designed to cover your core financial commitments such as mortgages, rent and food bills.

Depending on the type of policy you choose, it's possible to cover anywhere from 50% to 70% of your gross (pre-tax) income. You can generally choose your deferred period – the length of time you would need to be off work before the policy pays out – this can range from seven days to 12 months. This choice will affect the amount of premium you will be asked to pay.

You can also choose the length of time you would need the policy to pay out. This can range from 12 months or until you are well enough to return to work, or you reach the end of the policy term. It's often worthwhile tailoring this so that the policy would pay out once any long-term contractual support from an employer ends. This can help minimise the cost of premiums.

As a mortgage is secured against your home, it could be repossessed if you do not keep up the mortgage repayments.

INSURING A PROPERTY YOU'RE NOT LIVING IN

Properties can be left vacant for a number of reasons. Sometimes it's because there's a sale pending, or it could be that executors are awaiting probate, or the property is undergoing substantial renovation. In some cases it's because the owner is in hospital or has moved into long-term residential care. It's estimated that there are about 700,000 empty properties in the UK.

Standard home insurance policies usually provide insurance cover only for absences of up to 30 consecutive days. Fortunately, there are policies available that provide cover if a property is left empty for longer periods, say three, six or nine months.

EMPTY PROPERTIES POSE ADDITIONAL RISKS

Properties that are left unoccupied are at much greater risk from perils such as storm, flood, fire and theft, as there is no-one on the spot to prevent damage spreading or take immediate action to contain the problem, meaning that the damage can be much more extensive. In addition, unoccupied properties are much more likely to be targeted by vandals and thieves.

The cover can be purchased for both the contents and building, or if it's empty, just for the building. Contents policies will usually specifically exclude personal and valuable items such as jewellery, works of art and photographic and video equipment, as the insurer expects these to be kept with the policyholder, or stored securely elsewhere.

To qualify for cover, the property will need to be in a reasonable state of external repair so that it doesn't invite unwanted intrusion. Insurers will require certain security features to be in place. This means they'll expect good quality locks to be fitted to doors and windows and that usually means 5-lever mortice deadlocks or BS3621 standard locks on external doors.

The property will need to be visited and checked regularly. This doesn't have to be done by the policyholder or owner; it can be carried out by a nominated friend, relative or managing agent.

SECOND-STEPPERS FACING PROBLEMS FINDING PROPERTIES

It's easy to think that once you're on the housing ladder, it will be plain sailing from then on. However, second steppers, those looking to make the move to their next home, are also facing problems.

Whilst first-time buyers have benefited from government initiatives like Help to Buy and Starter Homes, the problems of those who already own a property have been largely overlooked, as it's often assumed that they have sufficient equity in their property to mean that they can comfortably afford their next move. But this view doesn't take into account the realities of today's housing market.

FAMILY-SIZED HOMES

Second-steppers are often looking to make the move from a flat or smaller house to a family-sized home that will accommodate their housing needs for the next few years. Making the transition from a first-time buyer's flat to a reasonable-sized family home with a garden can represent a huge jump in price and mean a borrower needing to practically double their mortgage. This is often where the problem lies.

Wages have risen only slowly over the last few years, house prices have remained high and there are new lending criteria following the Mortgage Market Review, so getting a much bigger mortgage can prove a real problem for some.

BANK OF MUM AND DAD

Lloyds[1] estimates that second steppers need on average a hefty £125,694 to buy their next home. Little wonder then that almost one in five 'second steppers' ask for a cash injection from the Bank of Mum and Dad to move further up the housing ladder, often needing around £22,000 in order to complete their purchase.

However, on the plus side, second steppers are usually in a more favourable financial situation than first-time buyers. They tend to be older, and often have a partner who also works, meaning that there are two incomes making the mortgage repayments more manageable.

As a mortgage is secured against your home, it could be repossessed if you do not keep up the mortgage repayments.

[1] Lloyds, Second steppers still need Bank of Mum and Dad, 2015

STAMP DUTY ON SECOND PROPERTIES

If you're buying an additional residential property worth £40,000 or more in England, Wales or Northern Ireland, such as a buy-to-let property, you need to be aware that there is an additional 3% payable in Stamp Duty Land Tax (SDLT). The new rate came into effect on 1 April this year.

HOW IS IT CHARGED?

The new SDLT rates for additional properties is charged on a tiered basis, with 3% applying for purchases up to £125,000; between £125,000 and £250,000 it's 5%, and from £250,000 to £925,000 8%, then up to £1.5m it's at 13%, and 15% on properties valued at over £1.5m.

It's important to note that the 3% additional charge applies to the entire purchase price of the property.

To illustrate, if a buy-to-let landlord had bought a property for £200,000 prior to April 2016 they would have paid just £1,500 in SDLT. Now, a landlord purchasing the same property would see their bill rise to £7,500.

ADDITIONAL POINTS TO BE AWARE OF

The additional rate also applies if you already own a property abroad and are buying your first home in Northern Ireland, England or Wales. Plus, if you already own a share in another property, if it's worth more than £40,000, then you'll be subject to the SDLT surcharge if you buy an additional property in the UK.

If, however, the property you are buying directly replaces your main residence, you will not be liable to the 3% surcharge, even if you own an additional home or homes at the same time. But if you do this, your previous main residence will need to be disposed of.

So, if you already have a main residence and buy another property that you intend to make your main residence, you will need to pay the 3% SDLT surcharge initially. However, if you sell your previous main residence within 36 months of completing the purchase of your new one, HMRC will grant you a full refund.

Similar arrangements apply in Scotland in relation to Land and Buildings Transaction Tax on properties there.

SUPER MUM DOES 23 DIFFERENT JOBS A WEEK

Recent research[1] has shown what many British mothers already knew – that they selflessly spend 32 hours each week doing a wide variety of different tasks for their families, fulfilling roles like chef, chauffeur, accountant, cleaner and house keeper, all rolled into one. The survey concludes that if Mum earned average industry rates for all this activity, she could expect to be paid £17,582 a year.

Many Mums say they take on roles as a parent that they might otherwise pay someone else to do, such as cleaning or decorating. Cleaning is certainly one of the more time-consuming jobs done for the family, taking up on average 180 minutes a week. Next comes cooking, which accounts for 174 minutes, followed by housekeeper (138 minutes), counsellor (114 minutes) and personal assistant (108 minutes).

DON'T TAKE MUM FOR GRANTED

Bringing up a family can be an all-consuming experience, so it's hardly surprising that life insurance isn't always top of mind with parents. You may no longer have two incomes coming in and you will undoubtedly have a lot of extra expense, such as food, clothing, childcare, schooling and holidays which all cost more when you have a young family.

It's easy to take the contribution Mum makes for granted. But if she was no longer there, many families would find themselves having to pay for domestic and childcare services.

PEACE OF MIND FOR PARENTS

Life insurance may not be at the top of many people's 'to do' list, but arguably it's one of the most important financial products anyone can take out, and one of the best ways of leaving your family provided for financially. It can provide a lump sum payable on death, or the diagnosis of a critical illness, and over the years, hundreds of thousands of families have been grateful that having life cover has enabled their family to cope financially following the death or illness of a loved one.

It is a common misconception that insurance is expensive; many people are surprised to learn that life insurance is cheaper than they think. The cost of life cover has fallen considerably over the past few years. After all, it's a small price to pay when you consider that having no insurance would cost you and your family considerably more.

PROTECTING YOUR FAMILY'S LIFESTYLE

A recent survey[2] shows that many adults in the UK have no life cover. The worst culprits are the 35-44 year olds, despite this being the age when many people are bringing up a young family and often have considerable financial commitments.

Life insurance isn't just about having a lump sum payable on death, it's as much about providing the life you'd want your family to enjoy if you weren't there to provide for them. This includes protecting their home, enabling debts to be paid off, providing for their care and their education.

Life insurance is a versatile product that can help protect you and your family at every stage of your life. We can help you find the right policy with the right level of cover to meet your changing needs.

1 Beagle Street, Super mums juggle 23 different professions, April 2016

2 AA Life Insurance Survey, April 2016

It is important to take professional advice before making any decision relating to your personal finances. Information within this newsletter is based on our current understanding of taxation and can be subject to change in future. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK; please ask for details. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from taxation, are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor.

NEWS IN BRIEF

Deposit for the average home tops £80,000

As house prices rose earlier in the year, so too did the average deposit put down on purchases. In January the figure had reached a staggering £81,721.

This statistic illustrates why many people are being priced out of the housing market, and underlies the rise of the Bank of Mum and Dad as a major source of mortgage lending, for first-time and subsequent buyers.

Being able to put down a larger deposit has a number of advantages. It means that lenders will view you as less of a risk and makes it less likely that you will fail their affordability checks. You are also more likely to be offered better, more competitive mortgage deals. Those who are able to provide a 40% deposit or more are likely to be in line for the best deals.

Affordability continues to be a major issue for buyers, especially for those without the benefit of equity in an existing property. Concerns have been expressed that as interest rates are at historically low levels, this problem could only get worse if interest rates were to rise.