

Mortgage matters

While the housing market has shown signs of recovery over the past year, it is still difficult to predict what the future will bring. House prices showed an upward trend for much of 2009 but fell slightly at the start of this year, and the market now appears to be entering into a period of stagnation.

Depending on where you look, commentators are divided on the future outlook of the market, with some expecting house prices to have halved between 2007 and 2011, while others predict increases of up to 25% between 2008 and 2013.

Consequently, for anyone thinking of remortgaging or getting a foot on the property ladder it can be extremely difficult to gauge what to do. What follows is a guide to the issues affecting property prices as well as a brief overview on finding the best mortgage deals for you.

The mortgage market

Housing prices peaked in mid-2007 and government figures from the same period showed that the number of property transactions followed suit. The price of property is intrinsically linked to the mortgage market, so it comes as no surprise that as the mortgage market has suffered, so too have housing prices.

At present the main issue affecting the mortgage market is the lack of available funds for lenders to dip into. Banks are becoming increasingly reliant on bolstering retail savings to finance lending, and recent regulatory changes require banks to hold on to more capital. While this is prudent to ensure the strength of the banks, it reduces the amount of money available to lend.

Theoretically there is still a large demand for mortgages, but lenders are choosing to accommodate lower risk customers with large deposits, a healthy amount of equity and no credit issues. As

a result, this reduces the amount of buyers in the market, meaning that as demand for property decreases, so too does the price of property. Consequently, if you tick all the boxes of a low risk customer, now could prove to be a favourable time to remortgage or take the plunge into the property market.

As supermarket chains and retailers look to enter the mortgage market, competition will also prove to be a key element in restoring the market, as more funding will increase the number of buyers and level of competition to purchase properties.

Buy to let

Formerly a driver of housing price growth, buy to let has conversely put pressure on

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prices of late. 'Amateur landlords' – people unable to sell their properties in the current market who are now forced to sit tight and rent them out instead – are expected to be gearing up for a second attempt to sell in the autumn, traditionally a buoyant period for the housing market.

A glut of such properties into a market with limited buyer numbers would inevitably lead to a reduction in house prices.

The economy

In the short term, the economy will have the strongest effect on house prices. With budget cuts looming and unemployment expected to rise, this will affect whether people can afford a property or be in a position to secure a mortgage. This will be significant to the future performance of the housing market.

A robust economy supports strong housing prices through increased employment and wages. If this is thrown into question and people are concerned about their employment and level of disposable income, they may decide to stay out of the

market, unwilling to risk a house purchase at such an unpredictable time.

The supply

Supply of housing has long been the major factor underpinning the price of property. The Joseph Rowntree Foundation maintains that there will be a shortage of 1 million homes by 2020, and this will be particularly felt in the south where it is estimated that 70% of the shortages will occur.

Estimates suggest that the UK requires 210 000 new properties each year, whereas builders and social housing groups are only supplying on average 154 000 per year. While demand may have subsided recently, there still remains a wider supply issue.

Essentially house prices have been in part supported by this lack of supply for a number of years and as things stand at the moment, house prices should retain their intrinsic value.

Questions to ask yourself

As to whether now is the time to enter the market, we would argue that while the future trajectory of house prices is important, it is crucial to look at the factors specific to you.

If you are looking to buy a property that you can stay in for at least 5 years and you are in a position to afford the related mortgage, then purchasing a house might be an option as the longer you stay in the property, the greater the chance you can make good on any short-term losses that you may encounter.

Finding the best mortgage deal for your long-term needs is not an easy job. It takes time and effort to trawl the market. Subsequently you might want to choose a financial adviser to do this for you. Make sure you go to an organization that will compare the whole of the mortgage market and not just focus on a limited number of providers to ensure that you find a deal that works best for you. **BJHM**

The above information does not constitute financial advice. For further information please speak to your financial adviser.

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