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House prices reached an all-time high at the end of 2020, thanks in part to the Stamp Duty tax holiday which has helped boost activity and prices across England and Wales.

Property values increased by an average of 7.8% in the last year, according to the latest e.surv House Price Index. The average house price in England and Wales now stands at £326,762 after rising 1.4% between November and December.

In early 2020, the Stamp Duty tax break combined with a market slowdown due to the first national lockdown resulted in an increase in activity in the second half of the year, as buyers rushed to take advantage of a tax discount worth up to £15,000.

Escape to the country

It was transactions outside of London and the South East that drove the national-level price rise. Excluding these two regions, average prices increased by 8.9% as people looked to purchase bigger homes in the countryside and towns further away from the capital.

This continues an ongoing shift away from big cities and commuter towns as many employees are now working from home on a more permanent basis, due to the pandemic. The South West saw the

fastest price rises in the last year, up 10.9%, followed by the North West, where prices rose by 9%.

Tide turning for first-time buyers

First-time buyers have been among the biggest victims of Covid-related changes to the property markets. As well as having to contend with much higher prices, mortgage choice has been more restricted as banks withdrew many 95% and 90% LTV loans at the start of the pandemic.

However, the tide is slowly starting to turn. A report by Moneyfacts, a data provider, found that the number of 90% LTV mortgages increased from 88 in December to 160 at the turn of the new year.

Rate changes

The Moneyfacts report also found that interest rates on both two and five-year fixes fell in January 2021. The average two-year fixed rate fell from 3.79% to 3.65% month-on-month, a decline of 0.14 percentage points, while five-year fixes dropped from 3.92% to 3.79%, a fall of 0.13 percentage points.

However, despite the gradual return of 90% mortgages, rates are much more expensive than before the pandemic. Two-year fixes are 1.08 percentage points higher than on March 1st 2020, while five-year deals have increased by 0.88

percentage points in the same time frame.

Equity Release: market update

While first-time buyers have struggled with rising house prices, these rises have been a boon for older homeowners looking to release cash from their properties.

Equity release usage grew once the property market reopened last summer and a report by provider, Key, found that the reasons for freeing up cash had changed in the last year.

Homeowners are now more likely to use their equity to repay outstanding debts, support their families and age-proof their homes. Understandably, there has been a sharp fall in the number of equity release users withdrawing cash to spend on foreign holidays and cruises.

The South East was the area with the most equity release customers, with the region accounting for 30% of all withdrawals. Close behind were London on 19% and then the South West on 11%, reflecting higher house prices in these areas.

Some homeowners in financial difficulty

Elsewhere, homeowners in financial difficulty were given a welcome boost after mortgage lenders agreed a

moratorium on repossessions would be extended until April 1. Banking trade body UK Finance said the extension would apply to both residential and buy-to-let mortgage customers.

However, it also revealed that about 130,000 homeowners were still unable to repay their mortgages. These borrowers are taking payment holidays from their bank as they cannot meet their monthly payments.

This figure is broadly unchanged since October, but is well below the peak for mortgage holidays when 1.9 million borrowers said they were in financial trouble.

Sources:

<https://www.esurv.co.uk/wp-content/uploads/2021/01/e.surv-House-Price-Index-England-and-Wales-December-2020.pdf>

<https://moneyfacts.co.uk/news/mortgages/first-time-buyer-deals-almost-double-month-on-month/>

<https://media.kg-cdn.co.uk/mediacontainer/medialibraries/kyretirement/marketmonitor/210120-2020-fy-market-monitor-final.pdf>

<https://www.ukfinance.org.uk/press/press-releases/mortgage-lenders-support-extension-to-moratorium-on-repossessions-until-1-april-2021>

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