

# Essentially Mortgages

2023 outlook for  
housing and mortgages

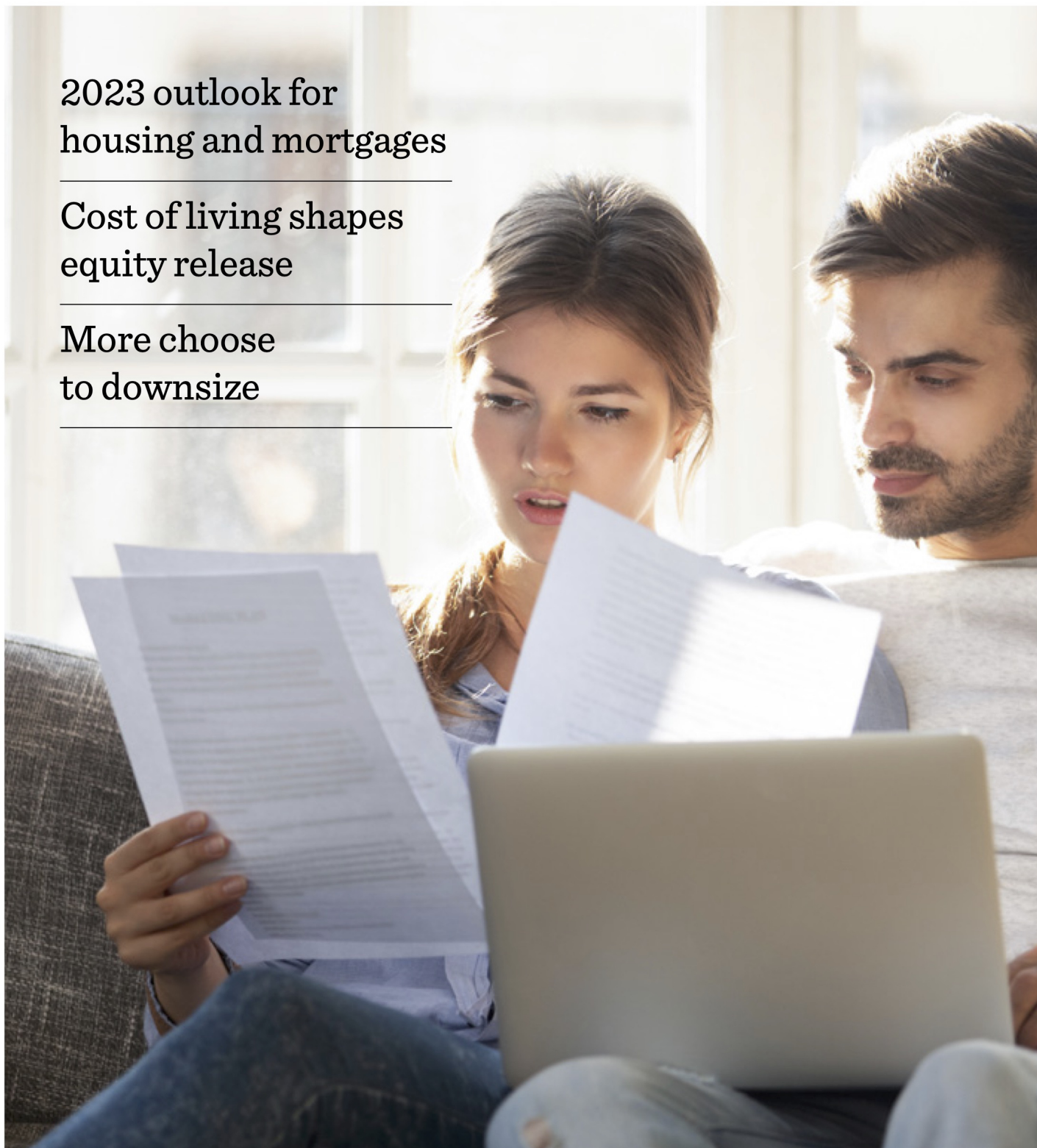
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Cost of living shapes  
equity release

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More choose  
to downsize

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## Q1 2023

- ▶ Green mortgages – still a mystery
- ▶ Rise of the '*accidental landlord*'
- ▶ Get protected for 2023

# In this issue

|  |   |
|--|---|
| <i>Will SDLT deadline fuel buying spree?</i>           | 3 |
| <i>More choose to downsize</i>                         | 3 |
| <i>Get protected for 2023</i>                          | 4 |
| <i>Cost of living shapes equity release</i>            | 5 |
| <i>Renters boost resilience with income protection</i> | 5 |
| <i>Boom time for BTL</i>                               | 6 |
| <i>Green mortgages – still a mystery</i>               | 6 |
| <i>Rise of the ‘accidental landlord’</i>               | 7 |
| <i>Support with your 2023 property plans</i>           | 7 |
| <i>Seeing the truth about protection</i>               | 8 |

## 2023 outlook for housing and mortgages

*The housing and mortgage markets have had a stormy 2022. Will the weather be set fairer for 2023?*

### Out with the old

The ‘mini-budget’ of September 2022 provoked a significant rise in average mortgage rates. Since then, however, rates have shown some signs of settling down and they are thought likely to remain steadier in 2023, following the Bank Rate rise to 3.5% in December.

After a decade of historically low interest rates, mid-single digits seem to be the new norm. For mortgage holders, the new reality of higher rates will have a knock-on effect on household finances, which are already squeezed for many.

### House prices

The housing market looks set to face a significant downturn. House prices are widely projected to fall in 2023, following three pandemic-influenced years of growth.

Estate agent Savills predicts a 10% fall in house prices in 2023, before a return to growth from 2024 onwards. Despite this, the astronomical year-on-year rises of 16% in July 2022 and 13.6% in August 2022 seem unlikely to be repeated for several years<sup>1</sup>.



### Buyers’ market?

The exact figures will depend on the various factors that influence supply and demand. In 2022, house prices remained resilient largely thanks to limited available stocks – this could again be a crucial determining factor in 2023.

Demand, meanwhile, is expected to receive a lift from the raising of the nil-rate threshold of Stamp Duty in parts of the UK, while pandemic factors such as the need for more space and a home office might still play a part. If a modest decline in house prices is seen, with possible regional variations, desire to buy could be further accelerated.

### Your future

With so many uncertainties as we move into 2023, we are here to guide you through the busy market and help you stay focused on your goals.

<sup>1</sup>Office for National Statistics, 2022



## Will SDLT deadline fuel buying spree?

*In his Autumn Statement on 17 November, Chancellor Jeremy Hunt confirmed that changes to Stamp Duty Land Tax (SDLT) announced in the September mini-Budget will be temporary and now only apply until March 2025. How will buyers react to this new deadline?*

The nil-rate threshold will remain at £250,000 (previously £125,000) and the nil-rate threshold applicable to first-time buyers will be £425,000 (increased from £300,000), while the maximum purchase price for which First Time Buyers' Relief can be claimed is £625,000 (up from £500,000 previously). After the deadline of March 2025, the thresholds will revert to previous levels.

In its Budget, announced on 15 December, the Scottish government froze Land and Buildings Transaction Tax (LBTT) rates at current levels.

During the pandemic, increased property tax thresholds helped propel huge buyer demand across the UK. It remains to be seen if a higher SDLT threshold can repeat the trick and sustain demand in 2023.

*During the pandemic, increased property tax thresholds helped propel huge buyer demand across the UK*

## More choose to downsize

*After the pandemic-induced 'race for space', downsizing seems set to be the trend of 2023, according to a new survey<sup>2</sup> that reveals three in 10 homeowners are considering saving money by moving to a smaller property, relocating or living with others.*

### Smaller space, big saving

Cost-of-living difficulties are forcing many people to rethink their housing situation; six in 10 said they might consider moving to a smaller home in response to the rising cost of living, with 4% having already made the switch to meet soaring costs. In total, of those considering downsizing, more than seven in 10 cited the lower cost of living as a benefit. The research quantified the decision to downsize as a £120,820 saving for each bedroom given up.

### Leaving London

Homeowners in Central London are particularly drawn to downsizing or relocating, with more than a third thinking of moving elsewhere to help their financial situation. On the other hand, Yorkshire and the Humber residents are the least likely to downsize and homeowners in North East England are the least likely to consider relocating.

### Mull it over

Although the saving could be significant, the downsides to downsizing were also stated by respondents. Specifically, moving costs (39%), a lack of personal space for belongings (38%), distance from family and friends (29%) and being in an unfamiliar area (28%) need to be considered. For help weighing up your options, get in touch.

<sup>2</sup>Halifax, 2022





## Get protected for 2023

*At the start of a new year, it's a great time to make sure your finances are in order. A key consideration for your 2023 financial checklist is protection.*

### **Safety net**

Protection insurance is an essential part of long-term financial planning. The right protection for your unique needs can serve as a crucial safety net against any unexpected downturn in your financial situation.

In 2023, as soaring prices and bills are making things more challenging for many, it is more important than ever to consider the role protection plays in your financial plan. Knowing you are covered against the most unpredictable events provides certainty in the most challenging times.

### **Don't act in haste**

If you cancel your protection now and subsequently take out a new policy in the future, it will likely end up costing you more when you resume payments. And that's not to mention the fact that you and your loved ones will be left without essential cover in the meantime.

When assessing your finances, it is important to think twice. Ask yourself if the level and type of cover you have is still suitable for your current needs. If your circumstances have changed, it is possible that you might need to update your cover too.

### **Get in touch**

Cancelling protection can undermine a carefully constructed financial plan. If you are thinking about changing your protection in the new year, don't act in haste. Contact us today to see how we can help.

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## Cost of living shapes equity release

*As more older homeowners choose to release equity in response to cost-of-living concerns, the sector is expected to keep increasing in the coming years.*

Almost six in 10 introducers now expect the equity release side of their business to grow over the next three to five years<sup>3</sup>. This finding follows hot on the heels of data showing new equity release lending hit £1.5bn in Q3 2022<sup>4</sup>, with 29% more plans taken out by the end of September than a year previously.

### Needs must

Equity release products provide access to equity that is locked up in the value of your home. There are many reasons why you might decide to access this, though pressing needs and day-to-day spending are currently more prevalent than discretionary spending.

Indeed, repaying debts (31%) and mortgages (24%) are the key reasons people are choosing to release equity. Supporting family members (20%) is also common, while funding home or garden improvements (up 3% year on year) and paying for holidays (up 7%) are both on the rise too.

### Get in touch

Equity release is not suitable for everyone. It is vital to take financial advice to make sure this is the most suitable option for your individual needs – we're happy to help. Equity Release / Lifetime Mortgages / Home Reversion Plan will reduce the value of your estate and can affect your eligibility for means tested benefits.

<sup>3</sup>Key Partnerships, 2022

<sup>4</sup>Key Later Life Finance, 2022



## Renters boost resilience with income protection

*Almost three quarters of private renters do not hold any protection products, industry figures<sup>5</sup> reveal, despite tenants generally having lower financial resilience than homeowners.*

### Financial vulnerabilities

Indeed, separate research<sup>6</sup> revealed that 14% of renters have no savings at all, compared with 8% of mortgage holders. Lacking the crucial safety net that protection provides is part of the reason more than twice as many renters (29%) as mortgage holders (14%) would expect to apply for state benefits if they were unable to work.

Following a 63% rise during the decade to 2017<sup>7</sup>, the number of households who currently rent privately in the UK is estimated at around 4.5 million – leaving a significant number at risk should they suffer a loss of income.



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### The role of income protection

Income protection is a financial safety net that provides you with a tax-free income if you are unable to work. If accident or injury are keeping you away from your salary, your insurance cover steps in at the end of your chosen deferred period to help make sure you and your loved ones don't suffer undue financial hardship.

In the current turbulent economic environment, the value of income protection for private renters is clearer than ever. As rising prices diminish savings pots, tenants become ever more vulnerable to financial shocks and missing rent payments.

### Advice for you

Having the right protection in place for your unique needs can help provide valuable peace of mind. Get in touch today to find out how we can help.

<sup>5</sup>Financial Conduct Authority, 2022, <sup>6</sup>FT Adviser, 2022, <sup>7</sup>Office for National Statistics, 2022

## Boom time for BTL

*Buy-to-let (BTL) lending remains strong as we head into 2023, with more than half of existing property investors planning to invest more into housing in the new year<sup>8</sup>.*

Landlords made about 12% of all UK house purchases in 2022<sup>9</sup>, the highest percentage in six years. As house-buying affordability remains low and demand for rental accommodation stays high, the prominence of BTL could be repeated in 2023.

Indeed, almost three quarters of those who currently live in privately rented homes are saving for a house deposit, according to a recent survey<sup>10</sup>, but 56% are now less optimistic that they will be able to save enough to meet their goals.

With landlords looking to boost their portfolios, some investment hotspots include Slough, Liverpool and Aberdeen, which all have thriving rental markets and strong predicted growth rates.

<sup>8</sup>Finbri, 2022, <sup>9</sup>Hamptons, 2022,

<sup>10</sup>Paragon Bank, 2022



## Green mortgages – still a mystery

*As the UK economy moves towards being a net-zero emitter by 2050, the impact of the housing sector moves further into the spotlight. But do homebuyers know (and care) about green mortgages?*

New research<sup>11</sup> presents a mixed picture. While one in five Brits would not consider buying a house with an Energy Performance Certificate (EPC) below grade C, six million UK homeowners<sup>12</sup> don't even know what their EPC rating is.

Each lender's criteria will differ, but typically green mortgages offer a discounted rate or cashback if a property has an EPC rating of A or B.

Currently, around two thirds of owner-occupied homes have an EPC rating below C, leaving vast room for improvement.

<sup>11</sup>MAB, 2022, <sup>12</sup>Myglazing, 2022

*Each lender's criteria will differ, but typically green mortgages offer a discounted rate or cashback if a property has an EPC rating of A or B*



# Rise of the ‘accidental landlord’



*London has seen a growing trend for ‘accidental landlords’ in recent years, as more homeowners decide to move their properties to the rental market amid uncertainty in the sector.*

The category includes those who have failed to sell, as well as others who decided to hold out for a better price. As rents have continued to rise, the appeal for those who own property to place it on the rental market has certainly grown.

Indeed, one estate agent<sup>13</sup> recently reported that there were around 35% more rental properties on the market compared to a year earlier. Whether these ‘accidental landlords’ will stay in the sector longer term remains to be seen.

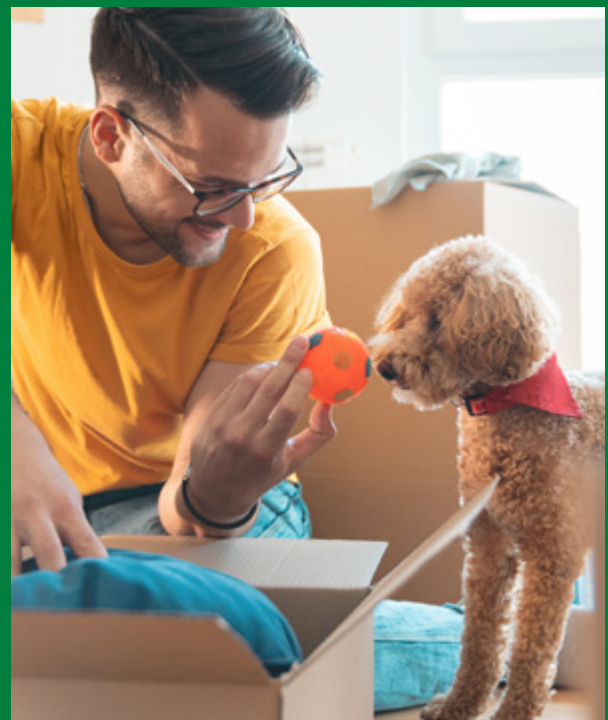
<sup>13</sup>Chestertons, 2022

## Support with your 2023 property plans

*Stamp Duty cuts, mortgage rate rises... 2022 was a topsy-turvy year in the property market. And with many challenges persisting into 2023, this year is likely to be just as busy.*

That’s why it’s more important than ever to have someone on your side who knows the market inside out. Whether you’re planning to move up the ladder, get your first step on the rung of that ladder, remortgage, downsize, or are still considering your options, we can help you achieve your goals.

We’re always here to provide the support and advice you need. Whatever your 2023 property plans, get in touch today!





# Seeing the truth about protection

*There is a major discrepancy between perceptions and the reality of protection, according to a recent report by the Association of Mortgage Intermediaries (AMI).*

More than six in 10 people say life insurance is important, even though fewer than three in 10 currently own a policy. Similarly, over half say the same about critical illness insurance, including 17% who consider it very important, but only 9% benefit from this protection.

## Protection misconceptions

The report revealed some of the top reasons people avoid taking out a protection policy, including "I don't have a mortgage" (38%) and "I can't afford it" (35%).

With policies starting from a couple of pounds a month, protection can cater to all budgets, while significant financial liabilities extend beyond mortgages. For example, it is vital to consider the impacts of lost earnings and how this might affect any dependants you have.

## Start young

Worryingly, three in ten people aged 18 to 34 think they are "too young" for protection. Accidents can arrive unexpectedly, making protection a crucial part of financial wellbeing at any age. Moreover, premiums are

generally based on your age and health condition, which can make taking a policy out at a younger age a shrewd financial decision.

## Here to help

We can help you find a policy with the right level of protection for your unique needs. Get in touch today!

*More than six in 10 people say life insurance is important, even though fewer than three in 10 currently own a policy*

**Important information:** We have updated our Privacy Policy to better explain how we keep and use your information to profile groups based on factors like interests, age, location and more, so we can better understand our customers, to adapt and improve our products and services. To find out more, please read our Privacy Policy online.

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