A YEAR OF MOMENTOUS CHANGE:

MFS's Review of 2016 & Forecasts for 2017

Market Financial Solutions

BRIDGING WITH FINESSE

A Year of Momentous Change: MFS's Review of 2016 and Forecasts for 2017

The curtain is soon to come down on 2016, one of the most momentous years in modern British history. Serving as the most definitive event over the course of the last 12 months was the decision on 23 June for the country to leave the European Union. An event that, in its aftermath, has triggered a number of significant political and economic catalysts, set to alter the UK's investment and property landscapes immeasurably. As we fortify our presence as an independent entity outside of the Single Market, the realms of international business are as yet undefined, carving a revolutionary era for business.

Beyond the resignation of Prime Minister David Cameron, subsequently replaced by Theresa May, came an overhaul of the Cabinet, followed in August by the Bank of England's decision to cut interest rates to a record low 0.25%. Serving as a timely swan-song to the traditions of chancellors past, in November, Philip Hammond delivered his first – and ultimately the last – Autumn Statement, which included several notable announcements pertaining to the UK property sector.

Throughout this 12-month period of transition, the property market has been required to adapt to changes. Once again, the market demonstrated its strength as one of the cornerstones of the UK economy. In this report, Market Financial Solutions (MFS) will examine what 2016 has meant for property buyers, real estate developers, and mortgage and bridging loan providers. Furthermore, we will look ahead to 2017 and review the key events that are likely to shape the coming year.

Property Prices Hold Strong

In 2016, the total value of Britain's housing stock passed the £6 trillion mark for the first time. Furthermore, the value of the private rented sector has reached £1.29 trillion, which is up 55% in five years, while commercial real estate now accounts for £94 billion – or 5.4% – of the nation's GDP. The figures demonstrate the huge importance of the entire property sector to the make-up of the UK economy.

This year has been one of continued growth for the property market, in spite of the uncertainty that surrounded the EU referendum and the subsequent fall-out from the Brexit vote. Data released by the Office for National Statistics on 13 December 2016 showed that the average price of a property in the UK currently stands at £216,674, which is an increase of 6.9% over the past year. In particular, the East of England (12.3%), the South East (9.1%) and London (7.7%) witnessed the most impressive increases in their respective property values.

Looking forward to 2017 and prices are expected to continue to rise; according to PwC, the price of a house in the UK will rise at between 2% and 5% next year, depending on the region.

Traditional Mortgage Lending Tightens

In 2007 there were 357,800 mortgages approved in the UK – this dropped by 49% to 194,000 the next year as the global financial crisis took hold, having a significant impact on traditional lines of lending. As the industry went about a rebuilding process, the implementation of the Mortgage Market Review (MMR) in April 2014 put borrowers under more rigorous assessments to ensure they can afford mortgage repayments. It hampered a mortgage industry that was already tightening its regulation to make the mortgage approval process more stringent. The 2016 iteration of the Mortgage Efficiency Survey demonstrated the impact of these stricter stipulations; it found that the number of mortgage applications being processed in ten days or less was 16% lower this year than in 2012.

The mortgage industry, like most markets, was impacted by the Brexit vote and the interest rates cut that followed. As the result of the EU referendum was announced, the stock market plummeted while the pound toppled to a 31-year low. Not only did market uncertainty impact interest rates but it also permeated the lending market and the availability of credit and mortgages. Bank of England data indicated that mortgage approvals dropped to an 18-month low in July, with just 60,912 mortgages approved by banks and building societies. This was the lowest monthly rate since January 2015 and was accredited as a direct response to the referendum result. August 2016 statistics also showed that mortgage approvals had fallen by a fifth compared to August 2015.

MFS's own research into the issue uncovered similarly worrying findings. We asked UK investors and consumers if they had encountered problems in the past five years when seeking credit. Of those who have investments worth in excess of £250,000 (not including properties, pensions or SIPPs), almost one in five (17%) said they had been unable to secure a credit card or loan in a timely manner. Furthermore, almost a tenth (8%) of UK adults with over £250,000 worth of investments stated that they have been refused a first, second or buy-to-let mortgage due to a poor credit rating. The results illustrate the inherent troubles still faced by even the wealthiest echelons of British society. Moreover, the most revealing indictment of the traditional British credit and loans approval procedure was that 8% of all respondents – equating to over 4 million people – said they had been refused a loan despite the value of their assets exceeding the value of the loan they needed.

The statistics reflect the impact that Brexit and the interest rates cut had on mortgage approvals across the UK in the second half of 2016. Paul Smee, the Director of the Council of Mortgage Lenders, has said that the year ahead promises to be another testing period for the mortgage industry. He commented in the organisation's housing market forecast: "The mortgage market remains resilient but is likely to plateau rather than grow much for the next couple of years."

Bridging Builds on Impressive Growth

2016 was a positive year for the UK's bridging industry – in February the Association of Short Term Lenders (ASTL) revealed that its members wrote £2.6 billion of business in 2015, which was a 13.8% rise on the year before. The bridging market continued to enjoy growth as the year progressed, as highlighted in the Bridging Trends Q3 report, which found that in the third quarter of the year bridging lending was up 54% to reach £140.49 million.

The speed of finance, combined with the alternative methods of assessing whether an individual should be granted a loan, has enabled bridging to rise as a popular option for funding property purchases, both in the residential and commercial markets. On the back of a progressive year in 2016, there is confidence within the market that 2017 will be another year of growth. In September, a survey among ASTL members found that 68% of the bridging lenders expect their business volumes to grow over the next six months.

Furthermore, Mintel's 2016 bridging loans report states: "Bridging has provided a vital resource to those looking to secure immediate finance. The industry's substantial growth over the last seven years suggests that the scope for innovation and collaboration between lenders and brokers will expand alongside awareness of how bridging finance can be useful in a range of scenarios, which will only increase growth potential."

MFS's study from Q4 2016 highlights the critical importance of education into how bridging can support the property market, with alternative finance providing faster and more flexible borrowing options alongside the traditional mortgage industry. In a survey of 2,000 UK adults we found that 12% of respondents – over 6 million people – have used alternative finance and found it easier and quicker than going to mainstream or traditional lenders. This rises to 25% among high-net-worth individuals with investments worth more than £250,000. Furthermore, 21% of this group of wealthy investors said they now rely on alternative finance to execute their investment strategy effectively. However, 55% of respondents said they do not know enough about alternative finance to explore such funding options. This knowledge gap risks acting as a glass ceiling on the future growth of the property and bridging industries in what is a critical time for Britain's economic development; something that will need to be addressed in 2017 and beyond.

Autumn Statement Initiatives

Britain's decision to leave the EU triggered a series of political manoeuvrings, including the resignation of Prime Minister David Cameron, who was later replaced by Theresa May. The new incoming PM wasted no time in appointing a new Cabinet, with Philip Hammond coming in to replace George Osborne as Chancellor of the Exchequer. Last month's Autumn Statement – the last ever – was Hammond's first opportunity to offer a clear indication of how the new-look Goverment wants to grow and build the UK economy. It included several notable announcements relevant to the property sector. However, as we reviewed in our report on the statement, there were also some surprising omissions, most notably the decision to not mention Stamp Duty.

One of the headline policies unveiled by the Chancellor Philip Hammond was the ban on letting agent fees. This move will ensure people renting properties will no longer have to pay upfront fees to landlords to cover administrational costs, such as background checks and contract drafting. Elsewhere, another of the Government's key announcements was that it is launching a £2.3 billion fund to deliver infrastructure for up to 100,000 new homes in areas of high demand.

It was also revealed that there would be £1.4 billion worth of investment to build 40,000 new affordable homes, while London will be receiving an additional £3.15 billion in national affordable housing funds to build over 90,000 homes.

However, while there was a clear focus on helping renters and building more affordable homes, the property investment and buy-to-let markets were overlooked – Stamp Duty did not form part of Philip Hammond's speech; it was instead only briefly mentioned in the Government's official policy paper, in which it stated that the Office for Tax Simplification "is to carry out a review on Stamp Duty on share transactions". A report from Oxford Economics examined the effects of Osborne's increase in Stamp Duty two years ago, which meant that anyone buying a property for more than £1 million had to pay more in tax. The study found that revenue from this property buying tax dropped from an expected £700 million to £370 million.

In the aftermath of the Autumn Statement, Nick Leeming, Chairman of estate agent Jackson-Stops & Staff, explained why Hammond's decision to avoid mentioning Stamp Duty was a confusing one: "Stamp Duty reform would have resulted in a chain reaction up the housing ladder, spurring current home owners to take their next step and freeing up housing suitable for first-time buyers and second steppers." The lack of acknowledgement around this pressing issue is frustrating and one that requires clarification in 2017 to ensure the buying market is nurtured as effectively as the rental.

Forecasts for 2017

There are a number of important events that will shape 2017 and, more specifically, the development of the UK's property and bridging industries next year. As the New Year approaches, all eyes will be firmly on the month of March; the third month of the year is touted to be the time when Theresa May will trigger Article 50, officially commencing the UK's separation from the EU. The two-year negotiations will begin to clarify exactly what Britain's relationship with the EU once Brexit is complete. These ongoing talks will give property buyers and developers – both domestic and international – a much clearer understanding of how Brexit will affect the property market.

Also occurring in March will be the Budget; usually taking place on the penultimate Wednesday of the month, the spring announcement will inevitably include a variety of initiatives and policy changes impacting the bridging sector. Whether the Government will take this opportunity to revise Stamp Duty laws – as had been predicted for the 2016 Autumn Statement – or the focus stays on housebuilding and the rental market, remains to be seen. Reducing Stamp Duty has the potential to incentivise further investment into the UK's already vibrant and in-demand property market, and MFS believes that the Chancellor must strongly consider this in 2017.

In light of our November report 'Asset Rich, Credit Poor' – which has been cited above – one of MFS's core objectives moving forward to is to address some of the disconcerting findings to emerge from the study. Namely, we will ensure that we deliver an agile and responsive service that caters to an accurate profile of modern day property investors.

MFS will enable property buyers across the UK to pursue their investment strategies without having to rely on a traditional lending system that can sometimes turn its back on even the nation's wealthiest individuals.

We wait to see what next year holds, but with confidence high in the bridging industry, and the property market demonstrating its resilience despite the momentous events of 2016, there is every reason to be optimistic about the coming 12 months. 2017 can offer an exciting series of opportunities within the British property market if investors and consumers are able to access loans in a fast and effective manner. Recent figures from the ASTL demonstrate increasing market demand for bridging loan options – in September 68% of bridging lenders said they expect their business volumes to grow over the next six months.

MFS is excited to continue its work on the frontline of the rapidly-growing bridging sector and support an ever-expanding list of clients in executing their investment strategies. With a brand new website and a swathe of recent coverage, we are carrying great momentum into 2017. Our 'Asset Rich, Credit Poor' report featured in a large number of international, national and trade publications, including: This Is Money, Yahoo! Finance, FT Adviser, Daily Mirror, Bdaily, Specialist Finance Introducer, and Bridging & Commercial. In 2017, we will continue to provide timely and insightful research into the constantly-evolving lending and property markets, which in turn will ensure further awareness around critical industry issues, both among our clients and the wider audience.

Next year our goals are to further expand our loan book, continuing to provide a safe alternative for investors reconsidering where to place their money in the wake of Brexit and record low interest rates. MFS's primary agenda will be to support the true profile of property investors in Britain by delivering a robust and agile service alongside traditional lending models. We will also focus on improving education and awareness of bridging through consistent and informative communication with our client base.

In order to ensure that our borrowers, investors, and the wider UK public are up to date on the bridging loans market and all specialist finance options, MFS will publish regular, timely research reports and informative content throughout 2017 to assist the UK consumer in exploring all alternative means at their disposal. We will do so with the ultimate goal of helping Britain's property investors develop a prosperous portfolio and enabling Britain's real estate market to continue its upward progression.

To speak to a member of our team and find out more, contact MFS on 0845 303 8686.

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