

**IFA Fact-Files
"First-time buyers"**

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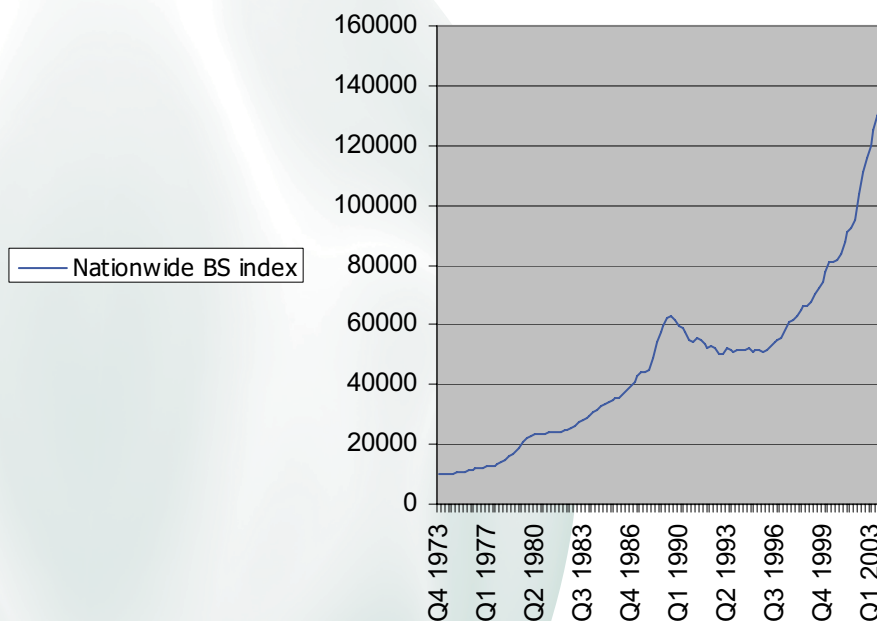
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The difficulty that first-time buyers are having getting onto the property ladder has been widely reported. In this "Fact-File" we set out a number of reasons why we think that first-time buyers should delay making the largest financial commitment of their lives.

House Prices

We firmly believe that the residential property market behaves like any other market with a cycle of highs and lows depending on economic conditions. You cannot deny that over the very long term property prices have always increased but there have been significant troughs on the way. The most memorable is, of course, the period starting in late 1989 when the average house price shed 20% of its value in just over 3 years. The chance of this happening again should count as a warning for anyone trying to get their foot on the first rung of the property ladder now.

Average house price (UK)



Timing is Everything

As with any investment, timing can make all the difference between winning and losing. Plotting the average house price during the early 1990s crash indicates that it took over 8 years to recover to its previous high. A lot can happen in 8 years...

Interest Rates

The last decade has also seen a prolonged period of low interest rates. In fact, at 3.25% the Bank of England base rate was at its lowest for 40 years. At the time of writing, the base rate was 4.00% with most City economists predicting a rise to 5.00% by the end of the year. Again, our memories deceive us because it is still possible to remember interest rates of 14-15% so mortgages seem cheap and securing a loan of twice that of the previous generation doesn't seem so bad. Even a quarter point rise can have a significant effect on your monthly repayment, if you have stretched yourself at the outset (while interest rates are low).

Stamp Duty

The Chancellor recently increased the Stamp Duty threshold from £60,000 to £120,000 in his latest Budget. Whilst this helps, there are still very few properties in this area valued at less than £120,000. If you purchase a house costing between £120,001 and £250,000 you will incur a tax charge of 1% of the full purchase price. The % rate is higher for property values in excess of £250,000.

Why Not Get Help?

Many commentators are currently suggesting a variety of methods to get a "leg up" onto the property ladder. We do not believe that these are any more sensible than purchasing on your own:

Get Help From Parents

Recent research has suggested that 17% of first-time buyers are getting help from parents. Parents, if you are in the situation of being able to help, that's great, but just because you can help, doesn't make it a good investment decision. If the housing market falls sharply, your "help" with the deposit could be lost very quickly. It still might be better for you to rent to see what house prices do first. We would be nervous of any situation where Parents are themselves borrowing, to help out their children.

Buy With A Friend

If you are already renting with someone else it can seem like a good idea to buy together. In reality the risk of falling house prices is not reduced but just spread between you. Relationships do go sour and if your friend wants to get out early you may be forced to sell when you least want to. Just be careful with this approach.

Get A Longer Mortgage

We are not averse to clients taking a mortgage over as long a term as possible – 35 years is not unrealistic for someone in their twenties. However if you are overstretching yourself or buying at the top of the market paying it back over a longer time frame won't make you feel any better.

Take A 100% Loan (or more!)

Lenders are becoming more wary of high lending but it is still possible to get a loan for the whole purchase price and add the cost of fees on top. The most obvious risk is that if you have no equity to start with there is more chance of falling into negative equity. More immediately this type of mortgage will certainly cost you more to repay so you could be losing out twice.

Summary

We, like everyone else, do not know if property prices are going to fall. If they do, you will be better off waiting and purchasing when the market starts to fall and gets near the bottom. If they don't, and you have waited, the only real risk is that prices continue to go up faster than earnings and inflation. Our view is that this is unlikely. Your options then might be to rent for a while, or alternatively, stay on with your parents for a while longer (if they'll have you). One thing's for certain – you have difficult decisions to make.

The views given in this document are only an opinion and therefore we accept no responsibility for any action that you take as a result.

If you have any questions or need an independent review of your investment arrangements, please contact Martin Andrews to discuss your situation further. Martin Andrews & Associates Ltd is an Independent Financial Adviser regulated by the Financial Services Authority.

Information given in this document should not be taken as advice as it is intended for guidance only. If you wish to have an assessment of your own situation, you should contact the office for advice.