

## Is there a housing bubble – and is it about to pop?



### The news that average house prices in London have hit almost £500,000 has, unsurprisingly, led to talk of house price bubbles and potential crashes. But how worried should we be?

According to Land Registry, London saw an increase of 9.6% in house prices in the year to September - a rate few were predicting at the start of the year.

However, the picture for the UK as a whole is a little more subdued, with prices having risen by a more modest 5.3% in the previous 12 months, bringing the average UK house price to £186,553.

#### Rates remain steady

What happens next on house prices is hard to predict, as there are so many variables at work.

Although regulation is influencing the amount lenders are able to lend, competition amongst the major lenders

is intensifying. And, whilst it seems inevitable that mortgage interest rates will eventually rise from recent historic lows, there are few signs to suggest any imminent changes.

#### Demand outstripping supply

Employment rates are at their strongest since records began and earnings are, for the first time in many years, outpacing inflation. This, alongside the ever-growing population, is likely to continue fuelling a demand for housing.

Meanwhile, there remains a significant shortage of housing stock. Despite the pick-up in house-building levels in the last couple of years, many estate agents are reporting a lack of property coming onto the market with 'for sale' housing stock at an 11-year low.

One influence on the availability of homes for sale will be the recent tax changes affecting so-called 'Buy to Let' landlords, of which there are now an estimated 2 million. Whether landlords choose to sell-up, increase rents to cover their costs, or accept lower returns, the impact will likely be felt gradually over the next few years.

#### So what can we expect?

Strengthening demand from would-be buyers, combined with constrained supply, suggests that the UK as a whole is unlikely to see any significant 'correction' in house prices in the near future. This view is shared by many forecasters, including estate agency Savills who predict continued, steady growth of between 2.5 - 5% per year for the next five years.

Predicting the likely direction of central London house prices is far tougher. Estate agents in the capital are still forecasting growth in the year ahead, but there is no doubt that activity has eased back in recent months. With at least 20,000 'luxury' homes currently under development or in the planning stages (a level far greater than the historic norm), a period of consolidation seems likely.

**If you're looking for advice on funding your next property purchase, please get in touch.**

**YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.**

For arranging a mortgage a fee of £145 in relation to a property purchase and/or £95 in relation to a property remortgages is payable on application

# 1.75m homeowners unprepared for mortgage increase

The Bank of England (BoE) last increased the base rate in July 2007 and interest rates hit rock bottom in March 2009. This has meant over 1.75 million UK homeowners have never faced a rise in the BoE base rate.

## Mortgage payments around 18% of income

During 2014 these first time buyers were spending, on average, 18.4% of their income on their mortgage. If the base rate is increased many homeowners may be in for an unexpected financial shock.

If you have a £100,000 repayment tracker mortgage over 25 years, even a small rise of just 0.5% in the base rate would mean your repayments would increase by £300 a year.



Monthly Payment	Interest Rate
£475	3.0%
£501	3.5%
£528	4.0%
£556	4.5%
£585	5.0%
£614	5.5%
£644	6.0%

## Take control

There is still uncertainty around when the rates will rise but while rates remain low it's a good idea to get ahead of the game by reviewing your spending habits and budget.

Filling out an income and expenditure form will help you identify where you can easily make savings if you have to. Charities like The Money Charity offer a free online form, or you can easily search online for templates. Simply gather together all of your bank statements and bills. Work out your total income and outgoings. Don't forget to add in things such as Christmas or your car MOT. Once you know how much you have left over at the end of the month you'll be better prepared for any future surprises.

## Fixed rate

Whilst reviewing your finances you may also want to think about reviewing your mortgage. With a fixed rate mortgage, the rate (and therefore your repayments) will stay the same for an agreed period. This makes budgeting much easier because your payments won't change - even if interest rates go up.

**Whether reviewing your personal budget or your mortgage we can help. Get in touch to find out how we can help you.**

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# Buy to Let tax revamp



**There have been several shake ups announced in the Buy to Let market recently that affect both landlords and tenants.**

## **Tax relief**

Landlords can currently deduct mortgage interest from their rental income before calculating how much tax they should pay.

From April 2017, tax relief on Buy to Let mortgage interest will gradually be reduced. The restrictions will be phased in over four years, resulting in tax relief only being available at the basic rate of income tax (currently 20%) from April 2020.

Landlords can also claim 10% of their rent as tax relief for wear and tear. From April 2016 the allowance is being replaced by a system that only allows them to claim tax relief when they replace furnishings.

If you are in the Buy to Let market, you may want to consider setting up a company to take ownership of the properties, as homes owned within a company structure are not affected by these changes. However,

the transfer will be treated as a market sale meaning it may incur capital gains tax and stamp duty.

## **Safeguarding tenants**

The Deregulation Bill looks to prevent 'revenge eviction' by prohibiting landlords from serving a no-fault 'section 21' eviction notice for six months following the issue of a local authority improvement notice.

The bill also requires all rented properties to have a working smoke alarm and, in some cases, carbon monoxide detectors. Failure to meet these requirements can result in a fine of up to £5,000.

## **Right to rent**

From 1 February 2016 all landlords will need to check their tenants have the right to rent a property in the UK. Those who let property to someone without the right to rent can be fined up to £3,000.

*Buy to Let mortgages are not regulated by the Financial Conduct Authority.*

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# The matter of trusts

## Taking out a life insurance policy gives you valuable peace of mind: you know you've protected your family against financial hardship, should the worst happen.

But how can you make sure your policy will pay out quickly, to those who'll need it most, should you die? The answer might be to write your policy in trust.

### What is a 'trust'?

A trust is a legal document that allows you to specify what will happen to your money after your death. If your life insurance policy is written in trust, any payout will go to the trustees you've chosen, who will then ensure the funds are distributed to the people you'd like to benefit from the policy (the beneficiaries).

### Why is a trust so important?

Putting your life insurance policy in trust gives you control over who the beneficiaries are, helps them avoid Inheritance Tax penalties and helps ensure they receive the money quickly.

### Control

Every year, many people die without having put their life insurance policy in trust. As a consequence, the payouts become subject to the delays caused by the processing of a Will and, where there is no Will, the complex laws of intestacy come into play. This could mean the benefits of the policy will form part of your estate, and may not go to the people of your choosing. With your life insurance in trust, you can specify who you want the beneficiaries to be especially important if you are unmarried or in a civil partnership.

### Inheritance Tax

A life insurance policy that has been written in trust does not form part of your legal estate and is not subject to Inheritance Tax. This allows the entire policy payout to pass to the people you intended to benefit from it. Even if your partner is the named beneficiary of your policy (and therefore the claims payout would be exempt from Inheritance Tax under the current rules), it can still be worth putting your cover in trust to speed up the policy payout.

### Faster payment

Using a trust should help ensure that your life insurance payout is passed to the people of your choice more quickly without waiting for lengthy legal processes, such as probate. This can be a welcome relief for those left behind during what is likely to be a very stressful time.

### Setting up a trust

Trusts are usually simple to set up, but it's important to select the right type of trust and complete the documentation carefully.

**If you're thinking of putting a life policy in trust, please talk to us first. We can tell you if it's the right choice for you, which type of trust is most appropriate for your circumstances - and help you put the trust in place.**

*HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.*

*The Financial Conduct Authority does not regulate Trust Advice.*

**Call us on 0330 223 1113**

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