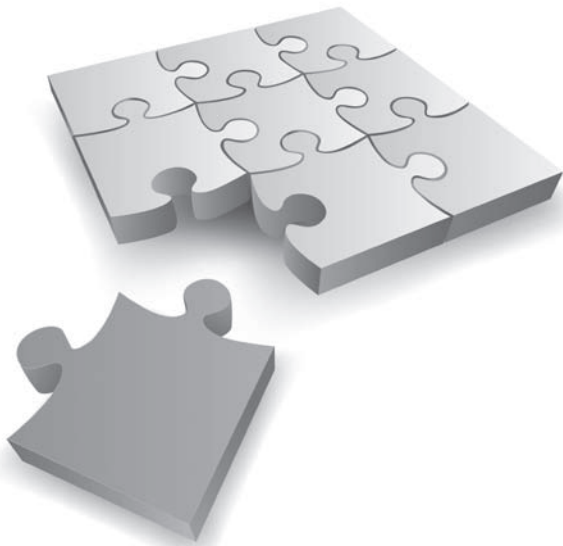


**Signs of recovery: confidence returning, fixed rates proving popular**



**Market intelligence from  
largemortgageloans.com**

## Signs of recovery: confidence returning, fixed rates proving popular

### Our opinion

We are firmly in a buyer's market and anyone looking to purchase now should look to drive a hard bargain. Average house prices could have further to fall so the time is ripe for purchasers to negotiate robustly on property prices.

Buyers should take a long-term view, whether they're nesting or investing. Given the current economic backdrop, it is impossible to predict the timing of a sustained national recovery in activity and prices, but it could take a number of years for consumer confidence to improve on the back of a strengthening outlook for the economy and a resumption in the flow of credit.

Interest rates are highly likely to rise in the future – the only question is when and how quickly. As a result, fixed and capped mortgages offer a sensible and very well-priced option for buyers with sizeable deposits.

### Signs of recovery

Recent housing market data has been mixed. Most indices record UK house prices continuing to fall: The Department for Communities and Local Government said the average price fell 12.3% in the three months to February 2009, the Halifax House Price Index posted a drop of 1.9% in March, followed by a smaller fall of 1.7% in April, but Nationwide reported a surprise bounce of 0.9% for the month – followed by a 0.4% drop for April. The latest figures from property company Hometrack were relatively upbeat, showing prices declining at their slowest rate for a year in April, falling 0.3% in a month, compared with a 0.6% drop in March, giving an annual decline of 10.3%. And other indicators suggest that the start of a recovery could be in sight. There was a 15% rise in the number of agreed sales in April, while the number of buyers registering with estate agents rose by 6% for the month and 32% for the last quarter, according to Hometrack. A separate study carried out by propertyfinder.co.uk at the end of April, revealed that almost half of a survey of 2,345 people said prices would rise in the next year, a significant increase in confidence.

Knight Frank reported that prices in prime central London rose 0.4% in April, the first rise since March 2008. The recovery was led by houses priced at under £1million in Chelsea, Kensington and Mayfair. But the cost of the capital's most expensive homes continues to fall, and the estate agent said average house prices in prime central London have now declined by 23.6% since last March.

Liam Bailey, head of residential research at Knight Frank, said: "Our view is that price falls are almost at an end in the central London market."

Richard Donnell, the Director of Research at Hometrack, commented "My gut feeling is that the price of family homes will plateau this year, with possible further falls for one and two bed properties. There are clear indications that estate agents are running out of supply and that, combined with the brake on new build, will support property prices. But first-time buyers are still not fully priced back into the market. Only when this occurs can we start to talk about the 'real' green shoots of recovery." He added that April's increase in agreed sales was mainly down to buyers of family homes and cash investors with plenty of equity in other properties.

Mortgage approvals rose by 4 per cent during March 2009 to 39,320, up from 37,937 in February 2009. Approvals have now risen for four months in a row and are the highest since May 2008. But economists said that it may still be a little early to confidently call the recovery. Howard Archer, the chief UK and European economist at IHS Global Insight, said: "The housing market has very likely passed its worst point. However, the most likely scenario is that the pick up in housing market activity will be both very gradual and prone to relapses given ongoing very poor economic fundamentals and still relatively tight credit conditions."

Most encouragingly for potential buyers and borrowers, affordability has increased dramatically over the past year. Martin Ellis, housing economist for Halifax reports that **"the house price to earnings ratio – a key measure of housing affordability – is at its lowest level since the autumn of 2002 at 4.26. Mortgage rate cuts have reduced monthly payments for the average existing borrower by £111 since October 2008, also boosting affordability."**

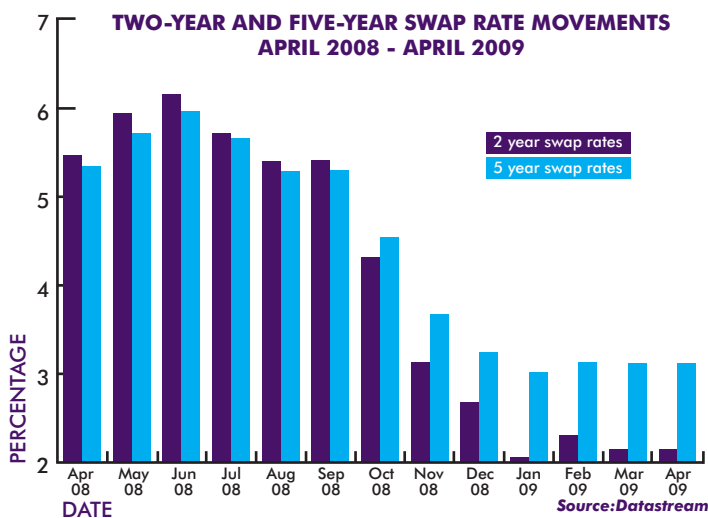


## Fixed rates proving popular

There are signs that conditions may be easing slightly for first-time buyers, with a small rise in the number of deals available at 90% loan to value. However, while this is encouraging, it is those borrowers with large deposits to put down who are benefiting most from a reasonably competitive market.

The majority of those buyers looking to purchase property now are opting for the security of a fixed rate. According to Legal & General's Mortgage Purchase Index, 72% of borrowers who took out a homeloan in the first quarter of the year opted for a fixed rate deal, up from 65% in the previous quarter. This trend indicates that people expect interest rates to rise in future – with Bank Base Rate (BBR) at 0.5% it does not have much further to fall, and the Government's 'quantitative easing' measures are widely expected to boost inflation in the future, necessitating rises in interest rates.

fairly attractively at the moment, with both two year and five year swap rates on a downward trend for the best part of a year, and remaining fairly static throughout April (see graph). Swap rates are a mechanism through which lenders can acquire a fixed price for funding over a specific period of time, which they then use to create fixed rate mortgage deals, building in a margin of profit. Swap rates factor in what the money markets see as the likely average rate over the chosen time period, usually anything from one to 10 years. They have been falling pretty steadily but are unlikely to get much lower given the anticipated increase in BBR at some point. Therefore it makes sense for borrowers to lock into a fixed rate while they are at their most attractive. It could also make sense for existing borrowers who are fixed at the higher levels which prevailed until autumn 2008 to remortgage to a lower rate today, even if it involves paying an Early Repayment Charge. The larger the mortgage, the more likely it is that remortgaging to a lower rate will save a borrower money.



For those who want the best of both worlds – the safety of a fixed rate combined with the potential benefit of further BBR cuts – a small selection of capped rates is available.

Trackers are currently typically being charged at around 3% over BBR, which is reasonably attractive at present but could get very expensive when BBR starts to climb again.

**In conclusion, there are tentative signs of a recovery in the housing market, but, with the economic outlook remaining uncertain, signs of good news should be tempered with caution. It is certainly a buyer's market and where buyers can negotiate a reasonable discount off asking price there are bargains to be had. For those with a large enough deposit there are plenty of well-priced fixed rate deals and a handful of capped rates on offer.**

For buyers with a substantial deposit and remortgagers with sufficient equity in their property, fixed rates are priced

## Case Study

Ed and Jo took out a two year 6.75% fixed rate in summer 2008 from a large high street lender, thinking that, since Bank Base Rate (BBR) had come down from 5.75% in July 2007 to 5% in June 2008, it was unlikely to come down much more. In any case, they prefer fixed rates as they like the security of knowing what their repayments are over set periods of time. Then the BBR started falling, and didn't stop until it hit 0.5% in March 2009. With two year fixed rates now around 3.5%, Ed and Jo are wondering if it is worth switching their £600,000 interest only mortgage away from their current lender.

With current monthly repayments of £3,375 (6.75% x £600,000) and an Early Repayment Charge (ERC) of 3 months' interest, switching will cost them £10,125 in ERC, plus about £5,000 in legal, valuation and arrangement fees, a total of approximately £15,000 to switch. But,

on a 3.5% rate, assuming they complete their remortgage by June 2009, they will save £21,000 in interest charges over the course of the next year, compared with the rate they were on  $[(6.75\% - 3.5\%) \times £600,000]$ .

So the net saving from remortgaging is around £6,000 across the year.

And in these difficult times, the fact that their new mortgage payments will come down from £3,375 to £1,779 will help make their cash flows a lot more comfortable.



**Your home or property may be repossessed if you do not keep up repayments on your mortgage.**  
**Changes in the exchange rate may increase the sterling equivalent of your debt.**  
**You may have to pay an early repayment charge to your existing lender if you remortgage.**